

**NATIONAL INSTITUTE OF  
CERTIFIED COLLEGE  
PLANNERS, LLC**

**Certification Program**

**Module 3**

**Advanced College Funding Strategies**

## **Module 3 Introduction**

- Lower & middle income families receive financial aid
- Upper-income families are expected to pay the full cost
- College is paid with after-tax dollars
- Cash flow and tax strategies can reduce the college burden

### **Module 3 Introduction**

Few financial advisors have dealt with clients in the past decade where the subject of paying for college has not been part of the conversation. Unfortunately, while colleges offer financial aid subsidies to most lower and middle-income families, the upper income and affluent clients are expected to absorb the entire college-cost burden.

However, while most high-income families don't mind paying a reasonable price to give their children a top education, they are certainly willing to take every opportunity available to them to lower college costs. This is especially true when you consider that these high tax-bracket families must earn significantly more income than the average family to pay for the same after-tax tuition costs.

Module 3 will help the financial advisor comprehend advanced college funding strategies using unique academic, cash flow and education-oriented tax strategies. Furthermore, these advanced college-funding concepts will allow the advisor to better integrate and maximize their client's retirement and estate plans.

## **Advanced Placement (AP) Studies**

- Effective way to gain admission and cut costs
- Receive a full year's credit
- AP is awarded by the college or university
- College's catalog provides the AP policy
- AP exams are offered in a variety of subjects

### **Section 1 Academic Information**

#### **Advanced Placement (AP) Studies**

Perhaps the easiest and most effective way for a student to stand out academically for admissions is to score well on Advanced Placement tests offered by the College Board ([www.collegeboard.com](http://www.collegeboard.com)). While these studies are for the academically gifted student, they can represent real dollar reductions in the cost of college. The student can receive a full year's credit and be granted sophomore standing from more than 1,400 higher education institutions by earning satisfactory grades on enough AP Examinations.

Advanced placement is awarded by the college or university, not by the College Board. Some institutions specify certain courses or other requirements for sophomore standing. The college's catalog usually provides a detailed description of that institution's advanced placement policy. Credit is usually awarded when one is admitted, although some colleges and universities award

sophomore standing only after the student has demonstrated the ability to do satisfactory college work.

**Planning tip:** When AP courses are added to the student's curriculum, the result is a "weighted grade point average" (WGPA), such as 4.3 on a 4.0 scale. This may help with admissions, but check with the institution the student is interested in attending to get a complete description of its AP policy before assuming that the student will get an AP credit.

AP exams are offered in a variety of subjects and are scored on a scale of 1 to 5, with 5 being the highest. The College Board gives these tests each May. Many high schools offer students practice tests to familiarize themselves with the format. The following are just some of the AP courses offered:

Art	Biology
Calculus AB	Calculus BC
Chemistry	Computer Science
Economics	English
Environmental Science	European History
French Language	French Literature
German Language	Government & Politics
International English Language	Latin
Music Theory	Physics
Psychology	Spanish
Statistics	U.S. History

### **Benefits Of Advanced Placement Courses**

Some of the numerous benefits of AP courses are:

1. Study a subject in greater depth
2. Prepare for college caliber work
3. Improve the chances of getting into a competitive college

4. Increase the grade point average (GPA)
5. Reduce college costs
6. Increase time for special interest courses at college
7. Increase the options for double majors or upper level courses
8. Improve the ability to succeed in college
9. Increase eligibility for an AP Scholar Award (discussed in next section)

### **Advanced Placement Fee Information**

#### Examination fee

Each exam costs \$75. The school keeps \$7 of that to cover administrative expenses.

#### Fee Reductions

If the student is in acute financial need, check with the AP Coordinator about how to get a \$22 fee reduction credit.

#### Alternate Exam Surcharge

There is a \$40 surcharge for most alternate exams that a school has to order. For details refer to the AP Bulletin for Students and Parents.

#### Refunds

If a student registers for an exam, but does not take it, the school is charged \$11. The school then decides if the student gets a refund for any other amount already paid. Once a student begins taking an exam, the fee is non-refundable.

## **Advanced Placement Scholar Awards**

- Recognize students who have demonstrated college-level achievement
- Achievement is acknowledged on grade report sent to colleges

### **Advanced Placement Scholar Awards**

The AP Program offers several Advanced Placement Scholar Awards to recognize high school students who have demonstrated college-level achievement through AP courses and exams. In addition to receiving an award certificate, this achievement is acknowledged on any grade report that is sent to colleges the following fall.

The award calculation differentiates among exams that cover full-year college courses and those that cover half-year college courses. Results of exams corresponding to half-year courses are given half the weight of exam results corresponding to full-year courses. These courses are:

Computer Science A	Environmental Science
Comparative Government & Politics	Macroeconomics
U.S. Government & Politics	Microeconomics
Physics	C-Electricity & Magnetism
Physics C-Mechanics	Psychology
Statistics	

## **Advanced Placement Award Levels**

### AP Scholar Award

Granted to students with grades of 3.0 or higher on three or more AP Exams on full-year courses (or the equivalent).

### AP Scholar with Honor Award

Granted to students with an average grade of at least 3.25 on all AP Exams taken, and grades of 3.0 or higher on four or more of these exams on full-year courses (or the equivalent).

### AP Scholar with Distinction Award

Granted to students with an average grade of at least 3.5 on all AP Exams taken, and grades of 3.0 or higher on five or more of these exams on full-year courses (or the equivalent).

### AP State Scholar

Granted to the one female and one male high school student in each U.S. state and the District of Columbia with an average grade of at least 3.5 on all AP Exams taken, and grades of 3.0 or higher on the greatest number of exams. The minimum requirement is a grade of 3.0 or higher on three exams on full-year courses (or the equivalent).

### National AP Scholar

Granted to students in the United States with an average grade of at least 4.0 on all AP exams taken, and grades of 4.0 or higher on eight or more of these exams on full-year courses (or the equivalent).

### National AP Scholar (Canada)

Granted to students in Canada with an average grade of at least 4.0 on all AP Exams taken, and grades of 4.0 or higher on five or more of these exams on full-year courses (or the equivalent).

### Department of Defense for Education Activity (DDEA) Scholar

Granted to the one male and one female student attending DDEA schools with the highest average grades on the greatest number of AP Exams. The minimum requirement is a grade of 3.0 or higher on three exams on full-year courses (or the equivalent).

AP International Scholar

Granted to the one male and one female student attending an American international school outside the U.S. and Canada (that is not a DDEA school) with the highest grades on the greatest number of AP Exams. The minimum requirement is a grade of 3.0 or higher on three exams on full-year courses (or the equivalent).

The student can prepare in advance for an AP by using the College Board's CD-ROM software packages, print publications and an array of online materials available at [www.collegeboard.com](http://www.collegeboard.com).

## **Internships/Co-op Education Programs**

- Internships for research and advance studies
- College juniors & seniors with outstanding records
- Vary from working during college or summers
- Allows student to alternate full-time enrollment with full-time employment

### **Internship/Co-op Education Programs**

Internships for research and advanced studies are available at some colleges for the undergraduate student. Most are available to college juniors and seniors with outstanding academic records. These programs are usually funded by endowments contributed by alumni benefactors for specific fields of study. Options vary from working during the academic year or during summers, while some require the student to take time off from classes for specific research. Some colleges have applications for these internships, which are judged and decided upon objectively by a panel or committee. Other colleges have subjective, direct placement programs for internships.

**Note:** Vault.com offers an on-line source of career and internship information. The website lists information on a wide range of internships and also includes hyperlinks to more than 3,000 corporate message boards, so that students can check out the pros and cons of any company's programs with employees and former interns before signing on.

Co-op education programs are formalized arrangements between the college and specific firms and corporations which allow the student to alternate full-time enrollment with full-time employment. Students usually alternate semesters in jobs directly related to their field of study. In addition to helping students finance part of their studies, it allows them to develop concrete job skills and experience that will enhance their employability after graduation.

**Planning tip:** Co-op programs have become more popular lately, especially in technical programs such as accounting and computer science. These programs give the company an opportunity to review the student's attitude and work ethic and many hire the student prior to graduation. Co-op programs not only reduce the student's cost of college, but offer immediate job placement. In a competitive job field, these programs can reduce the intangible costs associated with the time and effort of job hunting.

## **Retirement Accounts to Fund Grandchildren's College**

- Name grandchild as the beneficiary
- Income shifted to grandchild
- An IRD asset is reduced
- Tax-deferral over a longer period
- Gift retirement account to charity
  - Replace value with life insurance

### **Using a Grandparent's Retirement Accounts to Fund College**

If a grandparent's retirement accounts are left entirely to the parents, it is probable that the parents will take substantial distributions from the accounts to meet the grandchild's projected college expenses. In this situation, the grandparent should consider naming the grandchild as a beneficiary of that portion of the retirement accounts that will be sufficient to meet the child's anticipated college expenses.

The distributions will be taxed to the grandchild. If the distributions are used to provide more than half of the grandchild's support, the grandchild, not the parents, will be able to claim the personal exemption. Because the income is taxed to the grandchild, this strategy will help maximize the grandchild's tax capacity. The grandchild will likely pay very little or no income taxes on the distributions because of the grandchild's personal exemption, standard deduction, and eligibility for the education tax credits.

The parent made a charitable gift to a CRT. He used the cash flow from the CRT and the tax savings from the charitable gift to fund an irrevocable life insurance trust for the benefit of his children. When the parent dies, the irrevocable life insurance trust would receive the proceeds and hold or distribute those proceeds for the children's college costs.

In summary, the parent made a charitable gift, reduced his gross estate by the amount of the gift, retained a pre-gift equivalent cash flow from the gifted asset for life, and replaced the gifted assets with an equal amount of life insurance payable to his children. Transferring funds to the life insurance trust is a taxable gift. However, if the trust beneficiaries have Crummey powers, the right to withdraw additions to trust corpus during a specified period, the transfer should qualify for the \$11,000 per trust beneficiary annual gift tax exclusion. Since the life insurance is held in an irrevocable trust and the parent retains no incidents of ownership, the value of assets in the insurance trust would not be included in his gross estate.

**Planning tip:** If a client has a large IRA that was rolled over from a corporate pension plan and has named the children as the beneficiaries, the estate and income taxes will eat up most of the IRA. In this case, it might be better to make the charity the beneficiary of the IRA. Then the client could buy life insurance for the children, putting the policy in a life insurance trust to keep it out of the client's estate.

## **Testamentary Trust for Funding College**

- Provision in will for education expenses after age 18
- Pursuing a college education
- Equalization provision to prevent older grandchildren from pillaging
- Separate trusts for each grandchild

### **Testamentary Trust for Funding College**

A client can provide funds for a grandchild's college education through a will with a testamentary trust.

A provision in the testamentary trust could be made for general living expenses: typical support, maintenance, education and health expenses, until the grandchild reaches the age of 18. Once the grandchild reaches age 18, only the grandchild's educational and health expenses could be defined to include the reasonable living expenses of the grandchild. In essence, the grandparent would be "ruling from the grave." If the grandchild wished to have living expenses continued to be paid by the trust, the grandchild would have to be satisfactorily engaged in the pursuit of a college education.

A testamentary trust could benefit either one grandchild or two or more grandchildren. To prevent an older grandchild from pillaging the fund down at the expenses of a young grandchild(ren), "equalization provisions" in the trust should be considered. In the alternative, the trust document should contain provisions mandating or allowing the breaking of the original trust for the benefit of two or more grandchildren into separate trusts for the benefit of each separate grandchild.