



RetirementWorks®

Education Funding Plus

The RetirementWorks® Education Funding Plus module is more than the usual College Funding calculator in several important ways. Its principal features are:

- college is not the only consideration: the system can help fund for elementary and/or secondary schooling as well, and graduate school, if desired; multiple children and multiple educational periods for each child may be input;
- if desired, a combined education and retirement savings analysis can be performed; the advantage is that doing a combined analysis usually produces a lower (i.e., less intimidating and more acceptable) level of recommended savings than doing each analysis separately;
- up to three existing education savings plans can be taken into account (one at the parent's tax rate, one at the child's tax rate, and one at a tax-free rate);
- the system provides information about average overall costs (or tuition/fees only) for a variety of kinds of schools, but allows the user to plug in whatever cost assumptions are desired;
- an increasing savings pattern can be presented, as well as level monthly savings and a lump sum amount.

We have done our best to make this system reflect current tax rules. ***However, we always recommend that participants review these matters with their personal tax advisors, in order to confirm that the calculations performed are appropriate to each family's circumstance.***



When to Use This Calculator

The Education Funding Plus calculator can be used any time that savings for a child's or grandchild's education is at issue. This calculator is especially valuable and pertinent when it is important to bring the savings target into a range that the family can afford, thus avoiding the "sticker shock" that often dissuades people from saving anything at all.

This calculator aids this goal in several important ways: (1) it permits integration with retirement savings plans, which tends to reduce the total savings requirement;* (2) an increasing, rather than a level savings pattern can be illustrated; (3) the use of student earnings, loans, scholarships, and other sources is explicitly accounted for; and (4) up to three existing savings programs can also be accounted for. Each of these, when applicable, will reduce the calculated amount for the family to start saving immediately, and therefore makes it more likely that the savings plan will actually be implemented.

How to Use This Calculator

There are two Education Funding screens, plus additional inputs for Basic Retirement Needs if you are combining the analysis for both. We recommend the following steps:

1. Open the Basic Retirement Needs calculator first, if you are including retirement needs with the Education Funding analysis. See the on-line Help or the User's Guide for the retirement needs calculator if you need more help with this part of the process.
2. On the Education Funding Plus main input screen, answer the basic questions in the top section.
3. If the client family already has one or more pre-existing education funding plans in place, enter the appropriate information in the center portion of the Education Funding Plus main input screen.
4. Click the Student Detail button near the lower left corner of the Education Funding Plus main input screen to open up the Education Funding Student/School Detail screen. Enter the requested data for each student/school to be funded, then close the detail

* When education and retirement are calculated separately, the education savings component usually ends before retirement begins. This results in a total savings pattern that decreases after the children's education ends, which means that the overall pre-retirement savings pattern is far from optimal. By combining the analysis, and continuing a level or increasing pattern all the way until retirement, the immediate savings need is reduced.



screen.

5. Back at the Education Funding Plus main input screen, indicate whether you are combining retirement needs analysis with the education funding analysis.
6. Use the Calculate button to do a quick calculation of the results, or use the Print menu to preview, print, or export the results of the calculation.

Note on combining Education and Retirement Funding

Generally, you will not be able to match exactly the retirement calculations performed separately with those performed in combination with education funding. There are three reasons for this: (1) In order to optimize the calculations for each purpose, small differences take place (for example, education funding reports are geared to the academic year). (2) Rates of return and inflation entered on the education funding screen will override those used in the retirement calculations, when a combined analysis occurs. (3) The usual purpose of combining the two analyses is to reduce the total savings required, so that in most cases the monthly savings recommended in the combined analysis should *not* match the total of the education and retirement needs performed separately.



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Detailed Input Instructions – Retirement Income Amount screen

Name:

Number of students/schools (you may save for more than one school per student):

Educational cost inflation rate (usually 5%-to-7%): %

Percentage by which NEW savings will be increased every year: %

Assumed average annual AFTER TAX rate of return on NEW savings: %

– Current Savings Plans

Taxable at Parent's marginal tax rate of: %

Current balance: \$ **at an expected average annual PRE-TAX rate of return of:** %
PLUS new contributions of \$ **made** **times a year, increasing** % **per year.**

Taxable at Students' marginal tax rate of: %

Current balance: \$ **at an expected average annual PRE-TAX rate of return of:** %
PLUS new contributions of \$ **made** **times a year, increasing** % **per year.**

Non-taxable accounts:

Current balance: \$ **at an expected average annual rate of return of:** %
PLUS new contributions of \$ **made** **times a year, increasing** % **per year.**

Check here to combine Education and Retirement Savings
 Check here to continue existing Education savings until retirement

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Name

Enter the client or family name (e.g., "The Morgan Family"), as it should appear on the printed report.

Number of Students/Schools

Enter the total number of schooling periods to be funded for the family. For example, if there are three children going to college, that is three schooling periods. If there are three children going to prep school, then to college, and then one of them is expected to go on to graduate school, that would be seven schooling periods. The number you enter here will determine the number of entries you can make on the Student/School Detail screen.



Education Cost Inflation

The costs entered on the Student/School Detail screen will be the current year costs. In order to save adequately, we need to estimate how much those costs will grow over time. In recent decades, education costs have grown faster than general inflation, although it is by no means certain that they will continue to grow at as high a rate in the near future as they have in the past. A figure in the 5-7% range would probably be a reasonable guess in most situations.

Percentage by Which New Savings Increase

Most families have increasing income over time, and can afford, therefore, to increase their rate of savings over time. By assuming future increases, you can reduce (and make more palatable) the pain of starting up the new savings plan. To do so, enter here the percent (e.g., "5") by which the initial savings amount will increase every year, on a compounded basis (e.g., at 5%, \$100.00/mo. this year would become \$105.00/mo. next year, and \$110.25/mo. the year after that).

If you want to illustrate level funding only, leave this field blank, or enter zero.

Important. If you are combining retirement and education funding, this same increase factor will be used for both purposes, since the savings plans are being combined. It therefore overrides, for this part of the calculation only, the Salary Inflation Rate entry on the Retirement Needs main screen.

Assumed After-tax Rate of Return

Enter here the assumed rate of return on *new* savings. If savings will be going into a taxable account, you should use a lower return to reflect taxation.

Important. If you are combining retirement and education funding, this same rate of return will be used for both purposes, since the savings plans are being combined. It therefore overrides the rate of return on new savings that you have indicated in the Retirement Needs calculator, if that value is different.

Current Savings Plans

The center portion of the Education Funding Plus main input screen allows you to enter information about one, two, or three existing education savings plans. If there are no such



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plans in existence already, leave this section blank. If there are more than three such plans, group the existing plans into no more than three categories of similar plans.

Three categories of existing plans are provided in order to recognize three levels of taxation that may apply to existing plans: taxation at the parents' marginal tax rate (usually a relatively high tax rate), taxation at the students' marginal tax rate (usually a relatively low tax rate, often zero), and non-taxable accounts. However, by manipulating the rates of return and the tax rates that you input, you can make these three categories serve almost any purpose you like.

With one exception (tax rate) all three sets of plan entries ask for the same information:

- **Tax Rate (first two sections only).** The marginal tax rate to be applied, including state and local taxes, if applicable, as well as federal taxes. The marginal rate is the rate at which the next dollar of income will be taxed. Most middle-class families have marginal tax rates in the 30% neighborhood.
- **Current Balance.** In dollars, as of today.
- **Pre-tax Rate of Return.** The average annual *gross* rate of return expected to be achieved in this account over its future duration. Since we are also asking for tax information (above), the after-tax rate will be calculated automatically.
- **New Contribution Amount.** If the family is already committed to periodic future contributions to this account, enter the current amount of such contributions.
- **New Contribution Frequency.** Indicate how many times a year such periodic contributions are to be made.
- **New Contribution Increase Rate.** If existing savings plans assume increasing existing contributions, indicate the percentage by which they are expected to increase each year. If level funding is assumed, leave this item blank, or zero.

Retirement Analysis Check Boxes

These two check boxes appear in the lower right portion of the Education Funding Plus main input screen.

The first check box asks whether you want to combine the savings analysis for education and



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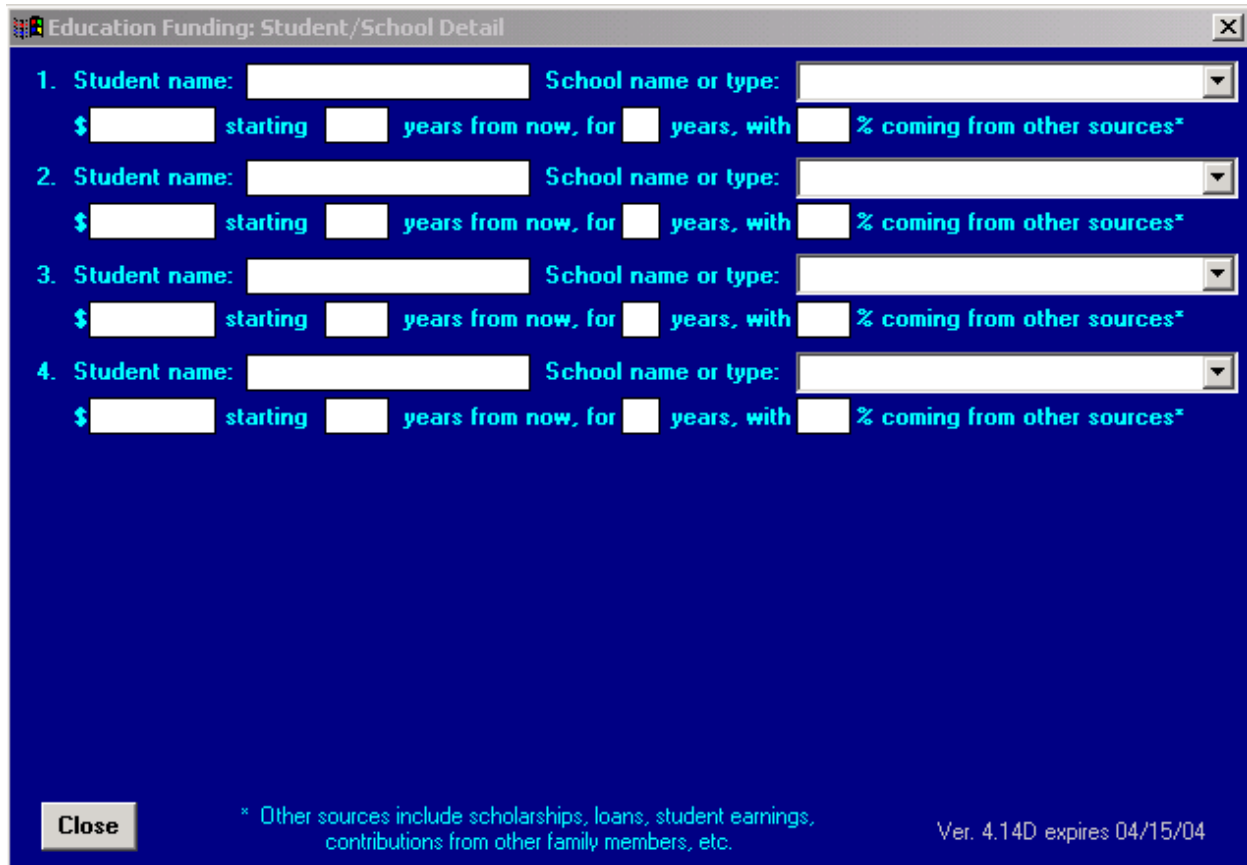
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retirement into one report. If so, click this box *on*, and also make sure you fill out the Basic Retirement Needs input screen, if you have not done so already.

The second check box is enabled only when the first box is checked *and* when you have indicated that existing retirement savings plans exist that have expected ongoing contributions. This second box asks whether you want to assume that these *existing* ongoing contributions continue after the education periods are all completed, and until retirement begins. If you check this box, that assumption will be used, which will tend to reduce the amount of new savings required. If you leave this box unchecked, however, the calculator will shut off these existing contribution flows after the last child graduates, and only the contributions from the new savings plan will be assumed to continue until retirement.

See the Note on Combining Education and Retirement Funding on page 3.

Student / School Detail



Education Funding: Student/School Detail

1. Student name: School name or type:

\$ starting years from now, for years, with % coming from other sources*

2. Student name: School name or type:

\$ starting years from now, for years, with % coming from other sources*

3. Student name: School name or type:

\$ starting years from now, for years, with % coming from other sources*

4. Student name: School name or type:

\$ starting years from now, for years, with % coming from other sources*

Close * Other sources include scholarships, loans, student earnings, contributions from other family members, etc. Ver. 4.14D expires 04/15/04

The Education Funding Plus Student/School Detail screen requests specific information about future education funding needs. You get to this screen by clicking the Student Detail button on the Education Funding Plus main input screen.

When this screen opens, one set (two lines) of input will be requested for each schooling period specified in the Number of Students/Schools field of the main input screen:

- **Student Name.** The name will be reproduced in the notes of the report, but has no effect on the calculations.
- **School Name or Type.** This is a combo box, where you can type in a school name, or you can select an entry from the drop-down list. The drop-down list items are categories of schools, and if you select one, two things will happen when you move the cursor off of this field: (1) a message box will appear temporarily, listing current costs for this kind of



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school (high, low, and average for total costs and for tuition only, as applicable); (2) if a current cost (see below) has not already been entered, the average total cost for that category of school will automatically be input — though you can override the automatic entry, if you wish.

- **Current Cost.** Enter the current cost for the school or category of school that applies to this schooling period.
- **Starting Year.** Enter the number of years from this calendar year that the schooling period in question begins. For example, a child who begins/began first grade in the current calendar year would normally begin college in 12 years. Always use whole calendar years. The calculator will make any necessary adjustments.
- **Schooling Duration.** Enter the number of years this schooling period lasts (e.g., normally two or four years for college).
- **Percent from Other Sources.** Indicate what percentage of the specified costs are expected to be paid for from student earnings, student loans, scholarships, contributions from other relatives, or other sources *other than* existing or new education savings plans. Using this field will tend to reduce the amount of new savings required, making the plan more acceptable to the family.

When you are done entering information on this screen, click the Close button. If you have too few or too many sets of inputs, change the number you entered in the Number of Students / Schools on the main input screen, then return to the Detail screen.