

# THE ABCs OF SAVING FOR COLLEGE

*with the Pacific Life Funds 529 College Savings Plan (Montana)*



## PACIFIC LIFE FUNDS

## THE CHALLENGE OF PAYING FOR A COLLEGE EDUCATION

Over the past 20 years, college costs have risen more than twice the rate of inflation. For many of us, paying for a child's education will be one of the largest expenses we'll incur in our lifetime. But the importance is clear—**a college degree helps a person earn up to 80% more than a high school diploma alone**, according to the College Board.

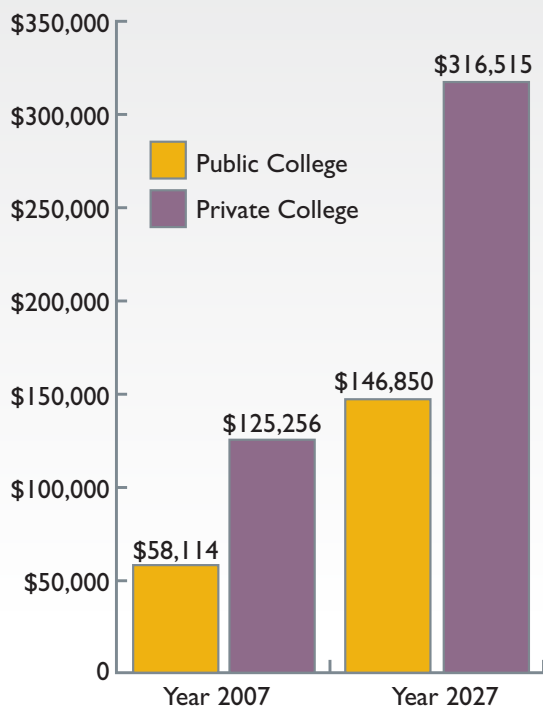


### WILL YOU BE READY TO FUND THE OPPORTUNITY?

This guide is designed to help determine how much you'll need to save per child and start the process of saving through a Pacific Life Funds 529 Plan.

#### THE COST OF A FOUR-YEAR EDUCATION

(tuition, fees, room and board)



#### COPING WITH THE COST OF COLLEGE

College costs have ballooned 40% in inflation-adjusted dollars over the last five years according to the College Board. Before you panic, research your choices and don't overlook opportunities to reduce costs.

What can you do to save money? Look for discounts wherever you can.

- See if the college application fee can be waived if your child applies online.
- If you have more than one child attending the same college, ask if the school offers sibling discounts.
- Some online auction sites and bookstores offer savings on textbooks.

Source: CollegeBoard.com, 3/06.

Estimate assumes 5% rate of inflation for college costs.



## AMANDA & ADAM

*1 child, 2 years old*

### PARENTS

Amanda and Adam live in a western suburb of Minneapolis. They have been married for four years and their child, Maggie, is two years old. Adam, in his late 20s, is an associate at a Minneapolis law firm. He has been consistently receiving raises and plans on making partner at the law firm in five or six years. Amanda, in her mid-20s, was a paralegal at a law firm in St. Paul, but she has taken some time off to raise Maggie.

Prior to becoming parents, Amanda and Adam's primary financial goals had been paying off Adam's law school loans and saving for a down payment for a house. Fortunately, Amanda's parents helped out with the down payment, so Amanda and Adam moved into their first home a few months before Maggie arrived. Now, they realize that they have a new financial goal: Maggie's college education.

As graduates of Northwestern University, Amanda and Adam are hoping that Maggie will attend their alma mater. They discovered that by 2024 (Maggie's anticipated start date), college expenses—including tuition, room and board,

books, and supplies—will be \$89,322 annually, and \$384,990 over four years, assuming a 5% inflation rate. Together with their financial professional, they reviewed their current financial situation and decided to set up a Pacific Life Funds 529 College Savings Plan. They were impressed with the tax-deferred growth provided by 529 plans, as well as the fact that the dollars could be distributed tax-free for qualified educational expenses. They set up payroll deduction through Adam's employer and designated a portion of Adam's raises (monthly investments totalling \$4,000 per year over 20 years) to the account.

### GRANDPARENTS

Without help, Adam and Amanda feared they wouldn't be able to meet the anticipated costs. They agreed to ask their parents if they would consider gifting "seed money" to their Pacific Life Funds 529 Plan account. Each set of grandparents committed to gifting \$6,000 per year for five years, for a total of \$60,000 toward Maggie's future educational needs.

*Total cost includes tuition, room and board, books, and fees.  
Source: CollegeBoard.com.*

### Key Points

- Contributions to Maggie's 529 plan account will grow tax-deferred.
- Withdrawals from a 529 plan to pay qualified higher-education expenses are federal income-tax-free.
- Contributions made by each set of grandparents may avoid federal gift taxes and may be removed from their estates.
- Some states offer state tax deductions to residents who invest in their state program. Check with your state as this may or may not be a factor in your overall planning strategy.



# B

## BEN & BETH

2 children, 6 and 8 years old

### PARENTS

Ben and Beth, both 32 years old, are a young couple living in Keene, New Hampshire. Ben graduated from Princeton University 10 years ago and recently received his CFA® designation. He works as an analyst for a local money manager. Beth graduated from Boston College 10 years ago and began her career working for a brokerage firm. They have two children—James, age 6, and Lily, age 8. After giving birth, Beth reduced her hours at the brokerage firm to devote more time to child rearing, but now she's back to a full-time schedule.

Ben and Beth recently finished paying their student loans and are now researching ways to finance their children's education. Ben was recently promoted at his job, and he received a significant raise. They decided that the best use for the additional cash is to help fund Lily and James' higher education through 529 plan accounts for each child. Their financial professional calculated the costs of two Ivy League educations beginning in 2018 for Lily and 2020 for James. Assuming a 5% rate of inflation, the combined projected four-year college expense for both children is \$541,673. The impact of Ben's raise and the end of their student loan payments allow them to defer \$9,500 annually. Even with this savings plan in place, they are still short.

They decided to talk to Beth's parents to see if they could help.

### GRANDPARENTS

Beth's dad, Bob, will be retiring from the City of Boston's accounting department, where he has been employed for 36 years. Her mom, Margaret, is still working and shows no signs of slowing down. After speaking to their financial professional, Bob and Margaret learn that their pension plans are fully funded and they have plenty of cash reserves to enjoy themselves during their golden years. They were happy to help fund their grandchildren's college education and reduce their taxable estate at the same time.

Margaret and Bob have significant dollar amounts saved in CDs that will be maturing soon. After speaking with their financial professional, they decided to open their own Pacific Life Funds 529 Plans for James and Lily and to gift \$60,000 to each child's account this year. In addition to helping reduce the burden of higher-education costs, their contribution may be removed from their estate. Also, since the 529 plan is in the grandparents' names, it is generally not considered an asset of the child when applying for financial aid.

*Total cost includes tuition, room and board, books, and fees.  
Source: CollegeBoard.com.*

### Key Points

- Contributions to Lily and James' 529 plan accounts will grow tax-deferred.
- Withdrawals from a 529 plan to pay qualified higher-education expenses are federal income-tax-free.
- Contributions made by Margaret and Bob may avoid federal gift taxes and may be removed from their estate.
- Some states offer state tax deductions to residents who invest in their state program. Check with your state as this may or may not be a factor in your overall planning strategy.





## CHRISTINE & COLIN

*1 child, 15 years old*

### PARENTS

Christine and Colin have a 15-year-old son, David, who is a high school freshman. Born and raised in California, David has his heart set on attending UCLA. Christine and Colin agree that they haven't really planned well or saved enough for his tuition and other expenses. Where did the last 15 years go? With only three years left before David begins college, they realized they were behind.

David did some research on the Internet and found that the total cost for a California resident to attend UCLA for the 2008 school year is \$17,263. At an estimated annual inflation rate of 5%, the total cost will be \$86,134 for four years.

### GRANDPARENTS

Recently, both sets of grandparents had approached Christine and Colin regarding David's college education and offered to help financially. Christine and Colin tallied the amount saved so far. At his birth, each set of grandparents had purchased Series EE Savings Bonds for David for a total of \$2,000. There also was \$13,000 in an Uniform Gift to Minors (UGMA) account, which Christine's dad had set up for young David in the 1990s when his business was booming and his estate taxes were projected to be devastating. Over the years, Christine and Colin also had made small deposits into a savings account earmarked for David's education, which now accumulated to \$6,000.

In reviewing their situation with a financial professional, Christine and Colin decided to roll the EE Savings Bonds, the UGMA proceeds, and the savings account into a Pacific Life Funds 529 Plan account and start a systematic savings program. They understand that they will be giving up the U.S. government guarantees associated with the savings account and Series EE Savings Bonds for the possibility of achieving a better investment return within the 529 plan. Even though David planned on beginning college in three years, he would be attending college for four years. They created a strategy for the next seven years.

Working with both sets of grandparents and Christine and Colin, their financial professional laid out a plan that everyone could easily live with. They all agreed to make systematic deposits into the 529 plan until David completed his four years at UCLA. Colin and Christine would contact their employers and set up payroll deduction programs so that a total of \$300 per month could be deposited into the 529 plan. Every year, each set of grandparents would gift \$2,000 into the 529 plan. Finally, even David would contribute \$30 per month. Assuming the suggested rollovers, transfers, and periodic payments were made, all of David's higher-education expenses could be met.

*Total cost includes tuition, room and board, books, and fees.*

*Source: CollegeBoard.com.*

### Key Points

- The UGMA account transferred to David's 529 plan account must continue to be for his benefit. It's important to remember that gifts made to UGMA/Uniform Transfer to Minors Act (UTMA) accounts are irrevocable.
- Redemption of the Series EE bonds may be tax-free. The accumulated interest may be included in each grandparent's income for that year.
- Withdrawals from a 529 plan to pay qualified higher-education expenses are federal income-tax-free.
- Some states offer state tax deductions to residents who invest in their state program. Check with your state as this may or may not be a factor in your overall planning strategy.



## The Coverdell Education Savings Account (ESA)

Education can be more than just attending college. For parents concerned about saving for a child's kindergarten through 12th grade (K-12) education, consider combining the Coverdell ESA (formerly the Education IRA) with a 529 plan for comprehensive education savings. The Coverdell ESA allows tax-deferred withdrawals for qualified K-12 expenses. Talk to your financial professional for more information and additional planning strategies.

# A

### CURRENT ASSUMPTIONS

<b>Child #1</b>	Maggie, 2 yrs. old	
<b>College</b>	Northwestern Univ.	
<b>Tuition, fees, and miscellaneous expenses adjusted for inflation</b>	2008	\$38,971
	2024	\$89,322
<b>Total Projected Cost (4 yrs.)</b>	\$384,990	
<b>Amount Currently Invested</b>	\$0	

### PROPOSED 529 PLAN CONTRIBUTIONS

<b>Systematic Investments</b>
Monthly investments totalling \$4,000 each year for 20 years; \$12,000 each year for five years (\$6,000 per set of grandparents)
<b>Lump-sum Contribution</b>
\$0

<b>Total Amount Invested</b>	<b>Total Amount Saved</b>
\$140,000	\$384,990

Assumed annual rate of inflation for tuition 5%  
Assumed annual rate of return for college funding 8%

# B

<b>Child #1</b>	Lily, 8 yrs. old	
<b>College</b>	Princeton Univ.	
<b>Tuition, fees, and miscellaneous expenses adjusted for inflation</b>	2008	\$35,072
	2018	\$57,129
<b>Child #2</b>	James, 6 yrs. old	
<b>College</b>	Dartmouth College	
<b>Tuition, fees, and miscellaneous expenses adjusted for inflation</b>	2008	\$38,169
	2020	\$68,456
<b>Total Projected Cost (4 yrs.) for both children</b>	\$541,673	
<b>Amount Currently Invested</b>	\$0	

<b>Systematic Investment</b>
Monthly investments totalling \$9,500 each year for 15 years
<b>Lump-sum Contribution</b>
\$120,000

<b>Total Amount Invested</b>	<b>Total Amount Saved</b>
\$262,500	\$541,673

Assumed annual rate of inflation for tuition 5%  
Assumed annual rate of return for college funding 8%

# C

<b>Child #1</b>	David, 15 yrs. old	
<b>College</b>	UCLA	
<b>Tuition, fees, and miscellaneous expenses</b>	2008	\$17,263
<b>Total Projected Cost (4 yrs.)</b>	\$86,134	
	EE Bonds	\$2,000
	UGMA	\$13,000
	Savings	\$6,000
<b>Amount Currently Invested</b>	\$21,000	

<b>Systematic Investments</b>
\$330 every month for six years \$4,000 annually for six years (\$2,000 per set of grandparents)
<b>Lump-sum Contribution</b>
\$21,000 (rollovers)

<b>Total Amount Invested</b>	<b>Total Amount Saved</b>
\$68,760 (includes rollovers)	\$86,264

Assumed annual rate of inflation for tuition 5%  
Assumed annual rate of return for college funding 8%

Hypothetical returns do not deduct fees and expenses such as annual maintenance fees, sales charges, or underlying fund expenses associated with 529 plans. This hypothetical example is for illustrative purposes and is not indicative of any investments. Withdrawals for expenses other than qualified higher-education expenses are subject to income tax and an additional 10% federal tax on earnings.



# ADVANTAGES OF THE PACIFIC LIFE FUNDS 529 COLLEGE SAVINGS PLAN (MT)

<b>Tax-Free Savings</b> 1	<ul style="list-style-type: none"><li>• Earnings grow and compound tax-deferred.</li><li>• Withdrawals used to pay for qualified higher-education expenses (includes tuition, room and board, books, and fees) for your beneficiary are federal income-tax-free.</li><li>• Contributions can be made until the total value of all 529 accounts (contributions and earnings) for that beneficiary equals \$335,000.</li></ul>
<b>Ownership Control</b> 2	<ul style="list-style-type: none"><li>• As account owner, you stay in control of the account. Your beneficiary does not gain control of the assets in the account.</li><li>• You can change your beneficiary at any time. If one child decides not to attend college, you can change your beneficiary to a relative of the original beneficiary.</li><li>• There are no income limits or restrictions to open an account and no beneficiary age limits.</li></ul>
<b>Gift &amp; Estate Tax Advantages</b> 3	<ul style="list-style-type: none"><li>• Donate up to \$60,000 per beneficiary in a single year without a federal gift tax. This includes the annual \$12,000 (for 2008) limit for the current year, plus \$12,000 for each of four successive years, as long as no additional gifts are made to the beneficiary by the same contributor during that time. If married, filing jointly, \$120,000 can be contributed per beneficiary in one year.</li><li>• Contributions may reduce the contributor's federal taxable estate.</li></ul>
<b>Investment Options</b> 4	<ul style="list-style-type: none"><li>• Pacific Life's Portfolio Optimization Funds offer a diversified investment selection.</li></ul>

## HOW CAN OUR ABCs HELP?

The most important step of any college savings plan is simple—you have to start. Whether you invest systematically over time, contribute a lump sum, or do both, getting started can be the hardest part. The sooner you begin, the more you may be able to accumulate.

Everyone's savings plan will be different based on a host of factors—the number of children they have, where each child wants to go to school, how much they have saved already, and whether friends and family will contribute. Take a look at our A-B-C case studies and see which is closest to your situation. Then, working with your financial professional, create a savings strategy that works for your family—and begin!



## PACIFIC LIFE FUNDS

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