A Full-Fledged Specialty
By Raymond Fazzi

Education planning emerges as a new niche as more clients need help with complex issues

Once an ancillary part of the financial planning process, saving for college has become an increasingly complex area that some advisors have nurtured into a specialty. Advisors point to the low-return market, tightening financial aid availability and college tuition increases that continue to outpace the general inflation rate as the reasons clients are looking for help.

Added into the mix is the fact that advisors have available to them a myriad of planning and investment techniques in trying to trim their clients' college tuition bills as much as possible. "I believe saving for college and retirement at the same time is possible if you understand the matrix," says Troy Miller, an LPL-affiliated advisor in Gold River, Calif. "There is a bunch of us out here studying this stuff."

The rise of college planning as a subspecialty in the planning field was underscored in 2002 by the creation of the National Institute of Certified College Planning (NICCP) and its Certified College Planning Specialist (CCPS) designation. Not coincidentally, the institute was started about the same time that 529 plans became popular among investors looking for a tax-advantaged vehicle for college saving.

The NICCP currently has 542 advisors with the CCPS certification and more than 300 other members who are working toward their certification, says Gary Carpenter, the institute's executive director and owner of College Planning Services, an advisory firm specializing in college planning in Syracuse, N.Y. Among the toughest issues college planning specialists are grappling with, he says, is balancing a client's retirement and college savings goals at a time when market returns are low and college cost escalations continue to be relatively high.

Advisors also note that the difference in price between public and private colleges can be stark, with the cost of some private schools topping $40,000 per year. "Many clients will have a smile on their face if their kid is thinking of going to a public university," says James Holtzman, a financial advisor with Legend Financial Advisors in Pittsburgh.

In 2005, for example, the college costs portion of the Consumer Price Index rose 7.46%. The general inflation rate, by comparison, was only 3.39%.

A rule of thumb, planners say, is that you can expect the college rate of inflation to be at least twice the general rate of inflation in any give year. In some years it can be higher, such as in 2002, when the ratio of the college to general inflation rate was 4.32. Sometimes clients will be hit with even higher increases—when they least expect it.

Jeffrey Daniher, a partner with Ritter Daniher Financial Advisory in Cincinnati, notes that Ohio recently raised tuition at its state schools by about 11% after imposing a cap on increases in previous years. That's why the firm tries to devise plans that can deal with a "worst-case scenario," he says.

This is impacting more than just the ability of clients to send their children to their dream school, advisors say. It's also impacting the future of the clients themselves—particularly middle-class families—who sometimes will go as far as cutting back on 401(k) contributions or borrowing from their retirement accounts to pay the tuition bills.

"It's getting more expensive—there is no two ways about that," Carpenter says of the bills parents are facing as they prepare their children for college. "I think the real impact to this whole thing is college is so expensive it's really impacting the retirement of a lot of families," he says, adding that he always looks for alternatives to touching retirement accounts when tackling college costs. "As a planner, I tell my clients that if you take money out of your retirement account, you're probably never going to put it back."

That's why, in practically all discussions about saving for tuition, advisors say they first want to establish that their clients are on sound footing when it comes to retirement. "I always advocate that they have their retirement situation settled first," says Cheryl Costa, principal advisor with Family Financial Architects in Natick, Mass. "We want to make sure they have an adequate amount saved and are able to continue future contributions."

J. Patrick Collins, principal of Greenspring Wealth Management in Towson, Md., notes that it's easier to scrape together a college plan at the last minute than a retirement plan. "Our advice is that there are a lot of ways for a child to be in college, but not a lot of ways to retire," he says. "There is no loan or grant scholarship for a client who wants to retire."

Client situations vary, advisors say. Cases can range from those of affluent clients who are looking to save through the use of gifting, asset shifting and merit-based financial aid, to middle-income families who may need a combination of savings, loans and financial aid to send their children to the school of their choice.

The CCPS program curriculum reflects broad issues involved in college savings planning, with three main components, says Carpenter. The first relates to the complexities of financial aid, including the differences between need- and merit-based awards, what client assets count against aid calculations and the proper way to complete the necessary forms.

The second CCPS module focuses on specific planning strategies, including the use of 529 plans, Coverdell Education Savings Accounts, custodial accounts for minors and the Lifetime Learning credit. The last part of the curriculum looks at advanced strategies for parents who do not qualify for financial aid, including gifting, income shifting and tax-advantaged ways for other family members to contribute.

Just as with investment management, however, college planning can encompass a broader roll for advisors. Brett and Dave Wilder, a father-and-son team that runs Financial Management Group in Cincinnati, start working with some clients' children as freshmen in high school.

Working with affluent clients who typically don't qualify for needs-based financial aid, the Wilders help students identify the colleges of their choice. After acceptance letters are received, the advisors will then try to negotiate for better merit-based financial aid on behalf of the student.

It's a role the advisors took on as they began to realize, through their work in college planning, that colleges are basically businesses competing with other schools. "They have revenues and expenses and have to manage the best way they can," says Dave Wilder.

It also means that colleges are willing to compete with one another for students they want, either because of outstanding academics or the diversity they bring to the student body, he says. The Wilders advise all their clients to apply to as many schools as possible—at least eight to 12—with the intent of playing schools against each other once the acceptance letters are received.

If, for example, a student's top choice provides a financial aid package that is inferior to the student's second or third choice of schools, the Wilders will point out the discrepancy in a letter to the top choice's financial aid office. The written appeal, Dave

Wilder says, will often prompt the student's favorite college to up its financial aid offer. Last year, for example, one student received an additional $10,000 in aid because of such a letter. "Some schools will state right out that they never do this, but they actually do," he says. "It's not a formal process at all."

Wilder notes that this appeal process is only used for private institutions, as public colleges are usually too cash-strapped to engage in student bidding wars.

Advisors say another reason college planning has become a specialty is because the area has grown more complex. As the options for tax-advantaged college saving has increased, they say, so has the frequency of rule changes.

This year, for example, advisors will have to keep up with an assortment of tax law changes, some of which are expected to make 529 plans more attractive to investors. The change with perhaps the largest impact is the treatment of the "kiddie tax" in the Tax Increase Prevention and Reconciliation Act of 2005.

Under the law, the age limit of the "kiddie tax" was moved from 14 to 18 years old. That means, up until the age of 18, all investment income earned by the child above and beyond $1,700 is taxed based on the parents' tax bracket. Previously, the kiddie tax vanished upon the child reaching age 14.

This, advisors say, could have a profound effect upon college saving strategies that involved shifting assets and income to children aged 14 and older to take advantage of the minor's lower tax bracket. Advisors note that many UTMA and UGMA custodial accounts in existence now—and set up specifically to take advantage of the beneficiary's lower tax rate— suddenly are going to be subject to a higher tax bracket. "This is certainly going to have a wide impact on virtually everyone saving in UTMA/UGMA accounts," says advisor Michael Kitces of Pinnacle Advisory Group in Columbia, Md.

Another change that could help propel the 529 Plan market—which hit a record $75.1 billion in assets at the end of the first quarter—is a rule change in the Deficit Reduction Act of 2005 that treats prepaid tuition 529 plans as assets of the parent. Previously, such plans were considered assets of the child and were considered dollar-for-dollar against the child's financial need eligibility.

Under the new tax treatment, the assets will be counted six cents against the dollar as assets of the parent, which is the way 529 savings plans have always been treated. "From a strictly financial aid point of view, the 529 plan has a little more merit to be used for college funding in that it is now an asset of the parent," says advisor Michael King, a senior partner with the Genesis Group in Brentwood, Tenn.

At the same time, the deficit reduction law will shift more burden onto the families of college students who use government subsidized loans. Among the changes in the law, Stafford loans disbursed on or after July 1 will have a fixed interest rate of 6.8%. The loans previously had a variable rate that was at 4.7% last year, according to Carpenter.

Similar changes are in store for Federal Parent Loans, which will carry a fixed rate of 8.5%. "Things are becoming more expensive on the loan side," Carpenter said.

As they incorporate new tax laws into their strategies, college planners are also awaiting some finality when it comes to 529 Plan withdrawals. Under current law, the federal tax exclusion for qualified withdrawals from a 529 plan will expire at the end of 2010. No action has yet been taken to guarantee the exclusion beyond that year.

"I think it has had an impact on sales, although I can't say how much," says Jeff Coghan, director of 529 Plans for The Hartford. He noted that if nothing changes, the class of 2006 would be the last to enjoy the withdrawal exemptions for four years. "We feel strongly that because of the interest in education and consumer interest in 529 plans that we should see some action on that portion of the bill."

URL: http://www.fa-mag.com/~admin1/issues.php?id_content=2&idArticle=1263