



Secure Your Future!
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Hello everyone,

For parents of college-bound students, you have a couple of interesting articles this month on 529 plans and paying back student loans. I hope you enjoy them.

With what is happening in the economy and the markets, I thought the article on precious metals in your IRA account would be worthwhile. There is a lot of demand these days for gold and silver, and this is one way to sock it away for the future.

Meanwhile please feel free to call me with any questions, concerns or for a consultation.

Linda

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The Independent 529 Plan



If you're a parent or grandparent looking at your state-sponsored 529 prepaid tuition plan as a vehicle to stash your college savings, you may

be interested to know there's another type of prepaid tuition plan that is sponsored by colleges. To date, only one such national prepaid plan run by a consortium of private colleges exists--the Independent 529 Plan.

How does it work?

The Independent 529 Plan operates like a typical prepaid tuition plan by allowing you to prepay tuition today that your child or grandchild can use in the future at any member college. But instead of the *state* carrying the risk that contributions won't meet future tuition increases, the *colleges* carry that risk. Specifically, the member colleges guarantee that the amount of tuition you purchase today will satisfy the proportionate amount at the time your child or grandchild enrolls.

For example, let's say you purchase tuition certificates today that are worth two years of tuition at College ABC. Your child or grandchild would then be covered for two years of tuition in the future at College ABC, no matter how much tuition rises or what happens in the markets.

Member colleges and tuition certificates

Currently, there are over 270 participating member colleges in the Independent 529 Plan (for a complete list, call 1-888-718-7878 or visit www.independent529plan.org). When you open an account, you purchase a certificate in the child's name. You don't choose a college ahead of time. The certificate you purchase will represent a different value at each member college because each college has a different tuition rate. For example, a \$20,000 certificate purchased today may be worth one year of tuition at College ABC but only half a year of tuition at College XYZ.

Each year, new tuition rates are set for each member college. As an added bonus for plan

participants, member colleges must discount their tuition between 0.5% and 2% from their official "sticker price" rates. Any certificate you purchase is valued at the plan's current year's tuition rates. Each certificate must be held for at least three years before it can be used. If a member college ever withdraws from the plan, it is obligated to honor all certificates that were purchased prior to its withdrawal.

One last point: keep in mind that opening an account in the plan doesn't guarantee that your child or grandchild will be accepted at a member college--the application process is separate and unrelated.

Other benefits

The Independent 529 Plan has no joining fees, maintenance fees, or annual fees--all administration and management costs are paid by the member colleges. And like state-sponsored prepaid tuition plans, the increase in value between the amount you prepay and the amount of tuition for which the certificate is redeemed is free from federal income tax. Anyone can open an account, and you can contribute as little as \$25 per month or larger lump sums up to \$190,000--the 2009/2010 contribution limit.

What if my child or grandchild doesn't attend a member college?

If the child doesn't attend a member college, you can: (1) get a refund, subject to a maximum return/loss of +/- 2% per year (the withdrawal amount will be free from federal income tax if it's used for the child's qualified education expenses); (2) change the beneficiary to a different family member without penalty; or (3) roll over the account tax free into a state-sponsored 529 prepaid tuition plan or college savings plan.

Note: Before enrolling, read all plan documents carefully. Also, before investing, consider whether your state offers a 529 plan with favorable state tax benefits. For additional help, contact your financial professional.

Student Loan Repayment Options



At one time, there was only one student loan repayment option--the standard 10-year plan. Now, there are an assortment of flexible repayment options to help borrowers meet their loan obligations. And it couldn't have come at a better time. According to an analysis of

the government's National Postsecondary Student Aid Study by financial aid expert Mark Kantrowitz, the average federal student loan debt load was \$23,186 last year--a figure that doesn't include private student loan debt, which has exploded in recent years along with the cost of college.

Standard plan

Under a standard repayment plan, you pay a certain amount each month over a 10-year term. If your interest rate is fixed, you'll pay a fixed amount each month; if your interest rate is variable, your monthly payment will change from year to year (but will be the same each month for the 12 months that a certain interest rate is in effect).

Graduated plan

Under a graduated repayment plan, payments start out low in the early years of the loan (presumably when a new college graduate has the lowest earning potential), then increase in the later years of the loan. With some graduated repayment plans, the initial lower payment includes both principal and interest, while under other plans, the initial lower payment includes interest only.

Example: Assume you have a \$20,000 student loan at a fixed 6.8% interest rate. Under a standard 10-year repayment plan, your monthly payment would be \$230, and your total payment over the term of the loan would be \$27,619, of which \$7,619 is interest payments. Under a graduated 10-year repayment plan, if you chose a 4-year interest-only option, your monthly payment would be \$113 for the first 4 years, then \$339 for the remaining 6 years, for a total payment over the term of the loan of \$29,852, of which \$9,852 is interest payments.

Extended plan

Under an extended repayment plan, you extend the time you have to pay the loan, typically anywhere from 15 to 30 years. Your monthly payment is lower than it would be under a standard plan, but you'll pay more interest over the life of the loan because the repayment period is longer.

Example: Assume the same facts as before--a \$20,000 loan at a fixed 6.8% interest rate. Under an extended repayment plan, if the term were increased to 20 years, your monthly payment would be \$153 (lower than the \$230 monthly payment under the standard 10-year plan), but your total payment over the term of the loan would be \$36,640--\$9,021 more interest than under the standard plan.

Income contingent plan

An income contingent repayment plan is for federal student loans (including graduate Direct PLUS Loans) made under the government's William D. Ford Direct Loan program only. Monthly payments are based on the student's income, family size, and amount of loans. After 25 years of repayment (not counting time spent in deferment or forbearance), any remaining balance on the loans will be discharged (you may have to pay taxes on the amount discharged, however). A public service loan forgiveness component will discharge any remaining debt after 10 years of full-time employment in public service. Borrowers with federal student loans obtained via private lenders under the Federal Family Education Loan program can ask their lenders about an income sensitive repayment option.

Income based repayment plan

The federal government's new Income Based Repayment (IBR) program went into effect July 1, 2009. Monthly payments are based on the student's income and family size. Borrowers pay 15% of their discretionary income to student loan payments, with any remaining debt forgiven after 25 years. According to Lauren Asher, President of the Project on Student Debt and the Institute for College Access and Success, a student will generally qualify if he or she owes about as much in federal student loans as the student's current annual salary.

This program is open to graduates with a Stafford Loan, graduate PLUS Loan, or consolidation student loan made under either the Direct Loan program or the Federal Family Education Loan Program. The loans can be for undergraduate, graduate, or professional studies, as well as for job training. The Department of Education has an IBR calculator on its website at <http://studentaid.ed.gov>.

And thanks to recent legislation, borrowers who take out a federal student loan after July 1, 2014, will pay just 10% of their discretionary income to student loan payments, with any remaining debt forgiven after 20 years.

Praise for IBR

According to Lauren Asher, President of the Project on Student Debt and the Institute for College Access and Success, "[income based repayment] was supported by a broad coalition of student, parent, loan industry, and higher education groups to make college more affordable and accessible," and the President's budget proposal is "a way to make the program even more helpful to responsible borrowers."



Rolling GRATs Are Rockin'

A grantor retained annuity trust (GRAT) is an irrevocable trust into which you make a one-time transfer of property and from which you receive a fixed amount annually for a specified number of years (the annuity period). At the end of the annuity period, the payments to you stop, and any property remaining in the trust passes to the persons you've named in the trust document as the remainder beneficiaries (e.g., your children) or the property can remain in trust for their benefit.

A GRAT is generally used to transfer rapidly appreciating (or high income-producing) property to heirs with the main goal of transferring, free from federal gift tax, a portion of any appreciation in (or income earned by) the trust property during the annuity period.

Because a GRAT is an irrevocable trust, when you transfer property to the GRAT, you're making a taxable gift to the remainder beneficiaries. The value of the gift is discounted because of your retained interest. The amount of the discount is calculated using IRS valuation tables that assume the property in the trust will realize a certain rate of return during the annuity period. This assumed rate of return is known as the Section 7520 rate, discount rate, or hurdle rate. If the property in the trust grows more than the IRS assumed rate of return, any excess growth will pass to the remainder beneficiaries gift tax free.

The catch to this strategy is that you must outlive the annuity period. If you die before the annuity period expires, the value of the property in the trust on the date of your death will be included in your estate for estate tax purposes. This, however, merely puts you in the same position you would have been in had you not used the GRAT (except for the costs to create and maintain the trust).

GRATs are typically created with a long term (5, 10, or 20 years), especially when the Section 7520 rate is low. The longer the term, the more growth that can potentially be removed from an estate. However, the longer the term, the greater the risk that you'll die during the trust term and that all of the GRAT assets will end up back in your estate.

What is a rolling GRAT?

A spinoff of the GRAT is a strategy known as a "rolling GRAT." A rolling GRAT is actually a series of GRATs with short terms (i.e., 2 to 5 years). For example, say you establish an initial GRAT (GRAT 1) for a term of 2 years. At the end of Year 1, you receive your first annuity payment, and with that payment you fund a

second GRAT. When GRAT 1 terminates at the end of Year 2, you take your second annuity payment and fund a third GRAT. Any assets remaining in GRAT 1 are excess returns that are distributed to the beneficiaries. Depending on how the GRAT is initially funded, excess returns on GRAT assets may consist of interest, dividends, and any market increase (appreciation) in the value of the assets. The creation of subsequent GRATs can go on for as long as you want.

The benefits of rolling GRATs

The main purpose of the rolling GRAT is to maximize return and minimize risk.

One benefit is that if one GRAT loses money or the growth of trust assets fails to surpass the Section 7520 rate, you can start over with another GRAT. Rolling GRATs are typically funded with specific stocks or asset classes. This segregation of assets can be an investment hedge, for example, to help prevent losses, if any, on one stock from offsetting gains on other stocks.

Additionally, you can reduce the risk of having all of the GRAT assets included in your estate because of an early death. If, for example, you die 5 years into an arrangement as described above, any excess returns from 3 of the GRATs would have been removed from your estate.

Further, assets from the rolling GRAT strategy are distributed to the beneficiaries earlier than with a long-term GRAT. With a 10-year GRAT, for example, assets are distributed only at the end of the 10-year period. With a series of 2-year rolling GRATs, some assets start to become available to the beneficiaries after the second year.

Finally, you can stop creating the GRATs whenever you want to. For instance, you may feel that you have gifted enough already or that you need to focus instead on rebuilding your wealth due to poor market performance.

The drawbacks

The use of rolling GRATs assumes that you do not need the annuity payments for other purposes.

Additionally, there is a risk that the Section 7520 rate may increase and keep increasing after the first year. Whereas a long-term GRAT can lock in a low initial Section 7520 rate for the entire GRAT term, rolling GRATs may be subject to fluctuating Section 7520 rates.

You'll need an attorney to draft the GRAT documents.



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Ask the Experts



Can I buy gold and silver in my IRA?

Yes, but you'll need to establish a self-directed IRA with a trustee/custodian who has experience with precious metals and is able to take physical possession

of the assets. The company you purchase the metals from will generally have a relationship with a trustee/custodian who can set up a precious metals IRA for you.

Under IRS rules, holding certain collectibles, including metals, gems, or coins, in your IRA can result in a prohibited transaction. That doesn't mean you can't do it. But if you do, there can be serious tax consequences--the value of the collectible will be treated as a distribution to you, and will be subject to income tax and a 10% penalty (unless you're 59½ or another exception applies).

However, certain precious metals are specifically excluded from the definition of "collectible." The following are currently permitted as IRA investments:

- American Eagle gold, silver, and platinum bullion coins

- Coins issued by any state

Also allowed is any gold, silver, platinum, or palladium bullion, in coin form or otherwise, that meets certain purity requirements (for example, gold coins and bars must be at least 99.5% pure). Currently this includes:

- Canadian gold, silver, and platinum Maple Leaf coins

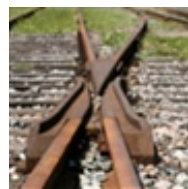
- Australian Philharmonic, Kangaroo/Nuggets, Kookaburras, and Koala coins

- Mexican Silver Libertads

- Isle of Man Noble platinum coins

- Gold, silver, platinum, and palladium bars and rounds of specific purity

Of course, you can also buy mining stocks, as well as gold and silver ETFs, in your IRA. For some, this is a more convenient way of adding this asset class to an IRA portfolio.



Frequently asked questions about 2010 Roth IRA conversions

1. How does the special deferral rule for 2010 conversions work? I've heard that I calculate the conversion tax in 2010, but can pay half in 2011 and half in 2012.

No, this is a common misconception. If you make a conversion in 2010, you will calculate the amount of taxable income in 2010. But then you have a choice: you can either report all of the taxable income on your 2010 tax return, or instead report half of the income on your 2011 return and half on your 2012 return. So, your tax liability will depend on your marginal tax rates in 2010, 2011, and 2012. (Note that tax rates will increase in 2011 if the Bush tax cuts are allowed to expire.)

2. Does the special deferral rule for 2010 apply to distributions I roll over from my 401(k) plan to a Roth IRA in 2010?

Yes. If you receive a distribution of non-Roth funds from your 401(k) plan in 2010 and roll

those funds into a Roth IRA, the taxation is similar to a conversion of a traditional IRA to a Roth IRA. You can report all of the resulting income on your 2010 tax return, or half on your 2011 return and half on your 2012 return.

3. Is it true that anyone can make annual contributions to a Roth IRA beginning in 2010, regardless of how much they earn?

No. You can contribute to a Roth IRA only if your income is within prescribed limits. These limits have not been repealed. What has been repealed are the income limits that used to apply to Roth conversions, beginning in 2010. But even if you can't contribute to a Roth IRA directly in 2010 because of the income limits, there's an easy workaround: you can make your annual contribution first to a traditional IRA (virtually anyone under age 70½ can make nondeductible contributions to a traditional IRA), and then convert that IRA to a Roth. Remember, though, that when you calculate the taxable amount due as a result of the conversion, you need to aggregate all of your traditional IRAs. See IRS Form 8606 for additional details.