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Issue 1



Welcome to "Manage The Markets" with Catherine Avery

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A Personal Note..

Dear Eric,

This week we are preparing for a very big day on Sunday. My oldest son, Noah, will be receiving his first Holy Communion. Even though he is only 8 years old, he has had so many milestones in his life already. As a mom, I want to see my children grow and yet preserve as much of the moment as possible to prolong the inevitable time when he will leave home to go to college. While it was fairly easy to prepare for this event, college prep is a more extensive process and often starts as soon as children are born. The first step is to start saving years in advance for the big event. The big question is how do you do it? Wall Street had once again come up with a product to address the need with all the bells and whistles (and, of course, lots of fees!) to address this need. The product I am referring to is a 529 Plan. Is a 529 Plan right for you? Are there cheaper and better alternatives? Today's newsletter takes a look at the different options available for college savings. Please call with any questions you may have!

Happy Mother's Day!

A handwritten signature in cursive script that reads "Catherine".

Catherine Maniscalco Avery



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COLLEGE CAPERS

The truth about 529s and other college savings plans

For those of you with kids' college looming on the horizon, a recent Morningstar Analysts' article entitled: "*Alternatives to 529 College-Savings Plans*," offers some great insights.

Aren't 529s the best college savings vehicles out there, you might ask? Well, yes and no, as the article points out.

The best of 529s are available at the state level, to all income levels, with attractive tax savings, lower fees and more flexible investment options. However, many states still offer poorly constructed plans, and no amount of tax incentives can compensate for those 529's lackluster returns and layers of fees. Plus, if your child opts out of college, or you have leftover assets once they've graduated, all 529s require that you pay taxes and a steep penalty before claiming your money.

At CAIM we are always looking for ways to lower our clients' fees and create the most flexibility in investments - which is why it seemed like a good idea to discuss the pros and cons of college investments.

So let's look at a few alternatives:

Coverdells

Pros: These savings vehicles are not limited to college and grad school expenses but can pay for everything from kindergarten on up. Coverdells also offer a wide range of investment choices, from CDs to mutual funds.

Cons: Contributors annual income must be below a specific minimum (currently \$220,000 for married filing jointly.) States don't offer tax deductions for Coverdell accounts, you cannot add to your assets after the beneficiary turns 18, and the beneficiary faces taxes and a penalty if assets aren't distributed by the time they turn 30. Also, and unfortunately, unless Congress takes action, contributors will only be able to sock away \$500 a year starting in 2011, while the primary and secondary education benefits currently offered, may disappear.

US Savings Bonds

Pros: Interest earned in good, old-fashioned US saving bonds is not taxed at the state level. Series EE or Series I savings bonds are not taxed at the Federal level either. There are also no annual account maintenance fees. If your student does not go to college, you pay only federal income tax on the interest, no penalty fee. US Savings Bonds are a safe investment vehicle backed by the US government.

Cons: They offer low returns and are limited to folks under certain income levels.

Standard Brokerage Account

Pros: Investors have complete control over their investment decisions and can stack their portfolios with best-of-breed mutual funds. Investors will incur some expenses but not the layers of fees associated with 529s or Coverdells.

Cons: Unless you stick with tax-exempt bond funds, or rely on successful, tax-conscious funds, you will pay taxes on your investments.

Home Equity Loans

Pros: The interest on a home equity loan is tax deductible. Plus, unlike 529s and Coverdells which can mean less financial aid, relying on a home equity line of credit means the loan shouldn't come into consideration.

Cons: The real estate market is not great now, so be careful about taking on

Cons: The real estate market is not great now, so be careful about taking on another loan, or you could find yourself with two loans, a cheaper house and a painful, financial situation.

IRA

Pros: The Roth IRA allows you to withdraw assets without penalty prior to retirement. If your child ends up not going to college, or receives a scholarship, or you have money left over in your Roth after paying for college, you'll be able to use that towards retirement.

Cons: You're reducing your retirement assets. You also won't receive a state tax break on your IRA contributions, unlike a 529.

Trust Funds

Pros: You don't need millions to set one up. It protects the money in case of catastrophe and there is no penalty if the money isn't used for education.

Cons: Lots of associated fees.

Other Options

Borrowing against a life insurance policy, financial aid, scholarships, loans, state schools & community colleges.

As you can see, the 529 is far from the be-all and end-all when it comes to saving for college. Why not look into some of these other options? There may be one, or a combination of several, that works best for you. If you're not sure, have a conversation with your financial advisor or your accountant.

See you in two weeks with more updates and news!

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For those of you with questions, feel free to call me at 203.966.2712. Also please visit my website at www.catherineaveryinvest.com

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