

# Planning is essential part of paying for college bills

**MORE THAN MONEY**



SID MITTRA, PH.D.

**Editor's note:** This is the third column in a seven-part series on educational planning.

## Investing for college

Saving for college is not an end in itself. These savings must be properly invested so that the after-tax return assumed in calculating the savings needed could be realized. There is, of course, no magic formula for investing college funds. But there is the eternal truth: Higher returns are generally associated with higher risks.

And because college costs must be paid when they are due, caution should be exercised in assuming average risks when investing college funds. In this column, a brief review of several investment options will be undertaken.

## Asset allocation strategy

Numerous studies have demonstrated that in the long run, stocks handsomely beat all other forms of investment. But these studies also reveal that in the short run stocks are far more volatile than bonds and money-market instruments.

One of the keys to sound investing for college funding is to have an intelligent investment strategy, which aims at maximizing returns for the level of risk acceptable to the family.

Generally, this involves diversifying across three different asset classes — stocks, bonds, and money market securities. This point requires elaboration. As mentioned, history has shown that while the highest growth potential is in stocks, they are also the riskiest of the three asset classes.

In contrast, money market securities virtually carry no risk, but also they have the lowest potential for return.

Consequently, a rational strategy is to invest almost exclusively in stocks when the child is relatively young, and college funding is 10 to 15 years away.

As the child grows older, however, the proportion of stocks should gradually drop, while the share of bonds and money market securities should gradually increase.

An example of this strategy being applied to a child at various ages is presented in the accompanying figure.

## The zero coupon option

An option with an iron-clad guarantee is to invest in zero-coupon Treasury bonds, with maturity dates corresponding to the child's years of college. For instance, a father could invest in four Treasury zeros for his new-born daughter, one bond to deliver to the daughter approximately \$45,000 each year during her four years in college. It is, of course, true that like all bonds, prices of these Treasury zeros will rise and fall with fluctuations and interest rates.

However, since these bonds will be held until maturity, their maturity prices will not be affected by fluctuations in interest rates.

## Savings bonds

Savings (Series EE) bonds offer a number of advantages and hence can be held as part of the college funding portfolio. A bond purchased early in 1996 will pay 4.75 percent for six months.

After the bond has been held for 5 years, it will earn a long-term rate based on long-term Treasury securities. Savings bonds are easy to buy, redeem, and give as gifts.

Finally, interest on savings bonds is tax-deferred until bonds are cashed. Incidentally, because interest on Series EE Bonds may be deferred, parents may consider the use of EE bonds to fund part of a college savings program.

The interest can be deferred until final maturity (30 years) or can be reported on an annual basis. The interest is not subject to state or local tax.

For bonds purchased in the child's name, having the child report the interest annually may be advisable where it can be offset by the child's standard or itemized deductions.

**Next week:** Education planning, part four.

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# Avoid financial mistakes in '97

Personal finance is a hot topic. Books, newspapers, seminars, and television and radio programs offer advice on every financial topic imaginable. But, in spite of the proliferation of information, many people still make big mistakes when it comes to handling their personal finances.

The International Association for Financial Planning (IAFP) has compiled a list of the most common personal finance mistakes:

- Not developing a financial plan. A plan is vital to your financial well-being. It can help you identify and accomplish short- and long-term goals and avoid many personal finance mistakes.
- Failure to think in

terms of the "big picture." Many people think of financial planning as choosing the next "hot" investment or investing in a mutual fund. A financial plan's many components — including investments — should work together to help you achieve your goals.

• Not keeping a handle on day-to-day cash flow. Know your monthly income and expenses so you can see how realistic your goals are. Distinguish between fixed (those you can't control) and discretionary (those you can control) expenses.

• Allowing lifestyle expenditures to increase as fast or faster than income. It's important not

to increase lifestyle expenses with every rise in income. Don't try to keep up with your peers when it comes to spending money. Maintain a lifestyle that's compatible with your budget.

• Failure to maintain a savings account. You should try to save at least three to six months of your salary in a savings account to cover unexpected expenses.

• Carrying credit card debt. Credit cards should be paid in full each month. If you can't pay for an item, don't charge it.

• Not having adequate insurance. Insurance is an important component of a financial plan. Review all of your policies: health,

life, homeowners, disability, etc., to make sure coverage is adequate.

• Buying too much house. Many people buy a larger house, but don't take into consideration the other increased costs that go with the home. As a result, they end up struggling to make the monthly payments. Don't forget to include utility costs, furniture purchases, etc., in the amount you're going to spend on a house.

• Not investing for the long term. Your best bet is to invest for the long term by using growth investments. Try systematic investing — also known as dollar-cost averaging — to

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## BUSINESS MILESTONES

This column highlights promotions, transfers, hirings and other key personnel moves within the Oakland County business community. Send a brief biographical summary — including the towns of residency and employment and a photo, if desired, to: Business Milestones, c/o Business Editor, Observer & Eccentric Newspapers, 805 E. Maple, Birmingham, MI 48009. Our fax number is (810) 644-1314.



**Bowers**  
David Bowers of Rochester Hills was promoted from first vice president to senior vice president.

national sales at Flanagan Bank in Bloomfield Hills. Bowers is responsible for wholesale lending and national accounts including banks, credit unions and affinity marketing groups. In addition, he will supervise 140 sales and support staff in ten regional offices.

Grosse Pointe Park resident Charles Bowers, a member Dykema Gossett PLLC in Bloom-

field Hills, was elected chairman of the Senior Lawyers Section of the State Bar of Michigan. Rutherford is a member of the firm's intellectual property practice group, specializing in patent, trademark, copyright and trade secret law, and related litigation.



**Christensen**  
Donald Christensen of Rochester Hills was named program manager at Farmington Hills-based Inalfa Hollandia, Inc., a leading supplier of OEM electric-sliding sunroofs to the worldwide automotive industry.

Christensen is responsible for quote development, program initiation and execution, coordinating and developing team members in their individual positions and maintaining customer relationships.

Grosse Pointe Farms resident Justin Klimko, shareholder and chair of Butzel Long's Transaction and Finance Group in Detroit, was included in "The Best Lawyers in America," one of the legal

profession's premier referral guides. Klimko practices in the areas of business and corporate law, and has extensive experience in securities regulation and mergers and acquisitions.



**Merritt**  
Shawn Merritt of Pleasant Ridge was named project manager at Farmington Hills-based Triad Performance Technologies, Inc. Merritt was formerly project manager at Warren-based MascoTech Training & Visual Services.

Jennifer Harrison of Farmington Hills joined Shandwick Detroit as an assistant account executive. Harrison is responsible for supporting the national brand awareness campaign for Frontier Communications. She handles media relations activities and conducts informal research and provides assistance in the daily implementation of other client programs.

Elizabeth Barnes of Troy



**Tuohy**  
Stephen Tuohy of Bloomfield Hills was named administrative coordinator for diagnostic services at St. Mary Hospital in Livonia. He will oversee outpatient services. Tuohy formerly held positions at the hospital as operations analyst in administration and financial analyst in financial services.



**Perry**  
Earnestine Perry of Southfield was named vice president/account supervisor at Hermant & Associates.

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