Profiles™
Financial Planning Application

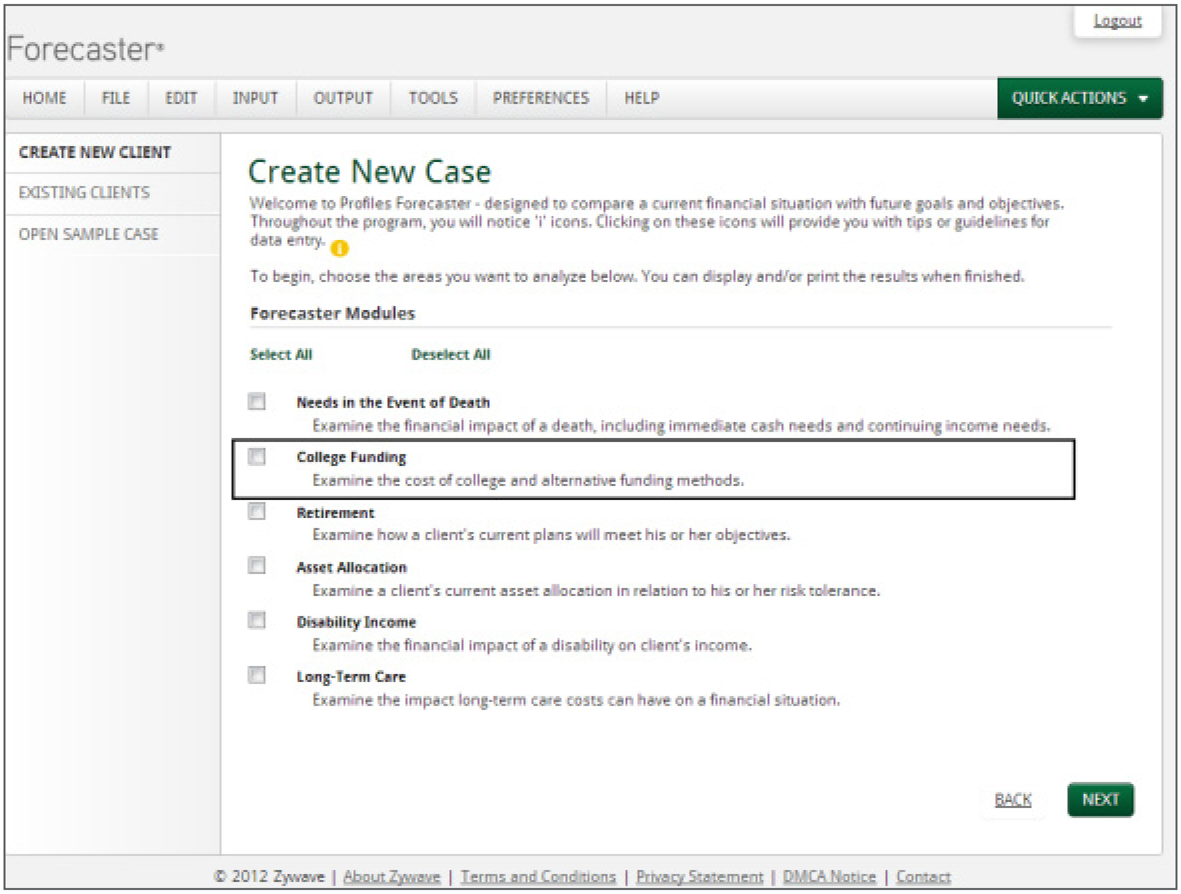
FUNCTIONAL DOCUMENT

Analyzing College Funding Needs

Profiles™ Forecaster☑

FUNCTIONS ADDRESSED IN THIS DOCUMENT:

- When using the College Funding module, how do planning preferences affect the analysis?
- How is college funding modeled and what resources are available to determine the cost?
- How does Forecaster analyze college funding? What reports can be used for presentations?



Create New Client category — Create New Case screen

Due to the ever-increasing cost of education, it is important to begin planning for college as soon as possible. It is also important to realize that clients' college funding needs will differ. For example, the planning needs for clients whose children are very young and will not attend college for fifteen years or more will likely differ from those whose children are teenagers and who have already made some decisions regarding college. The flexibility provided in the ***College Funding*** module allows you to address a wide variety of needs.

When using the College Funding module, how do planning preferences affect the analysis?

On the ***Planning Preferences*** screen, Profiles™ includes default assumption values that are used as the basis for many calculations. Because these assumptions may not be applicable for each user or each case, Profiles™ offers two methods to adjust these preferences: making changes that affect all new plans, or those that affect only the current plan.

Using the first method, if you enter alternative values on the ***Planning Preferences*** screen under ***Defaults for New Plans***, the changes will apply to all new plans. In contrast, if the changes should apply only to the current plan, enter your changes in the field under ***Used for Current Plan***. Any preferences entered under ***Used for Current Plan*** will override those entered under ***Defaults for New Plans***, for the current plan only.

DID YOU KNOW? Clicking ***Reset Global Defaults*** resets the ***Defaults for New Plans*** to the original Profiles™ settings.

While nine preferences are available, one planning preference: What long-term inflation rate should be used for college costs? is particularly important to college funding needs.

Inflation can significantly affect any aspect of a financial plan and because the cost of college generally increases at a faster rate than general inflation, Forecaster assumes (by default) a 6% rate. In cases where the inflation rate for college costs should be based on a different assumptions you can still enter a different rate.

How is college funding modeled and what resources are available to determine the cost?

After selecting the ***College Funding*** module on the ***Create New Case*** screen, one education goal for each dependant can be modeled on the ***College Funding*** screen (***Case Data*** category). For each dependent, college is assumed to start at age 18.

Six fields are available under ***College Funding Needs***; we will start by looking at the ***Years to Attend*** and ***Percent Clients Want to Provide*** fields. Because the time required for a child to complete his or her educational goal will differ, Profiles™ offers the ability to specify the number of years in the ***Years to Attend*** field, which defaults to 4 years.

In the adjacent field, ***Percent Clients Want to Provide***, Profiles™ allows you to specify the percentage of the cost that will be paid by the clients. This field defaults to 100%, assuming that clients in many cases will want to pay fully for their child’s education. In cases where it is not financially feasible for clients to fully fund their child’s education, a lesser percentage can be entered in this field.

Even though many clients can estimate the number of years that their child will attend college and the percentage they want to provide, since the annual cost of college can differ dramatically based on a number of factors, determining this amount is often more difficult.

Expenses entered in the ***Annual Amount (in today’s dollars)*** field are assumed to occur on January 1 of each year and should include books, tuition, fees, and room and board. While an amount can be entered directly in the ***Annual Amount* (in today’s dollars)*** field, in cases where the clients are less familiar

To help determine the Annual Amount (in today's dollars) value		
What resources are available?	**Where are they available?**	**Details and uses**
i-Help icon	Next to ***College Funding Needs*** on the ***College Funding*** screen	Provides the average annual cost of attending a public (in-state) or private college, including tuition, fees, and room and board. Useful in cases where the clients' children are young or in cases with older children where decisions regarding college have not yet been made and the clients would like to base their planning on the average cost. In addition, the i-Help information provides the average annual increase for both public and private colleges.
College Costs by Region output page	Available by clicking the **College Funding** category in the ***Client Presentation*** dialog box	Because the cost of college differs throughout the country, to assist users in estimating the cost, Profiles™ offers a ***College Costs by Region*** output page. This page illustrates historic and current average costs of tuition and fees for public and private schools by geographic region. In addition, the report illustrates college cost increases in dollars and percentages over the last ten years.

To better understand one of the resources available to determine the annual cost, and how Profiles™ calculates college funding needs, we will look at the case of Paul and Amanda.

Example: Paul and Amanda live in Arizona with their seven-year-old son, Brent. They want to keep Brent close to home, and since they would like to pay fully for four years of college, they want to take advantage of the lower tuition costs available to in-state residents. If possible, they want to have Brent attend the college they both attended (i.e., Arizona State University). They currently have $15,000 saved towards the cost, and continue to save $250 monthly.

Clicking on the ***College Funding*** screen opens the ***College Cost Search*** screen. After selecting ***Name of School***, entering Arizona State University in the search fields, and then clicking ***Search***, we can see that the information for two institutions appears. After selecting ***Arizona State University***, ***In-State under Tuition & Required Fees***, and ***Room & Board*** under ***Other Costs***, we can see that the total cost is $21,156. Once you click ***OK***, this information is populated in the ***School and Annual Amount* (in today's dollars)*** fields on the ***College Funding*** screen.

Case Data category — College Funding section — College Cost Search screen

DID YOU KNOW? In addition to ***Name of School***, Profiles™ allows you to search by ***City***, or ***State***. If—when searching by ***City*** or ***State***—the search returns more than fifty institutions, only the first fifty are displayed. In this case, it is necessary to refine the search using the additional ***Search on Tuition*** criteria.

DID YOU KNOW? While in some cases a school is better known by its acronym (such as UCLA), when searching by the name of the school on the ***College Cost Search*** screen, the college's full name must be entered.

The top portion of the ***College Funding*** screen focuses on the college funding needs, and the bottom portion focuses on the clients' savings to meet these needs. Savings for college are often put aside for more than one child and can be made by more than one person (such as grandparents), as well as a variety of investments such as 529 plans and UTMA/UGMAs. Therefore, the amounts entered under ***Current Savings*** in the ***Total Saved To Date*** and ***Monthly Savings*** fields should reflect the total of all these amounts. In the case of monthly savings, these are assumed to continue through until December 31 of the second-to-last year of the final college goal in the case. Lastly, the ***Average Rate of Return*** should reflect the average rate being earned by all assets and future savings.

How does Profiles™ analyze college funding? What reports can be used for presentations?

After modeling the college needs, Profiles™ offers reports to assist in analyzing the clients' ability to meet these needs. While one report, ***College Costs by Region***, assists clients in estimating the cost of college, both the ***College Needs Analysis*** and ***College Needs Analysis Details*** reports assist in analyzing the goal.

When analyzing college funding, Profiles™ uses net present value to compare the clients' college needs to their available current and current and monthly savings. Using net present value to compare the college needs to their savings can be thought of as calculating the amount that would need to be invested into an account today to meet these needs.

In cases where the clients are more analytical or numbers oriented, the ***College Needs Analysis Detail*** report provides a more in-depth analysis as well as strategies that the clients can consider to meet their goal.

To understand how Profiles™ calculates college funding, we will start by looking at the ***College Needs Detail*** report below for Paul and Amanda.

In the first section, under ***Goal Summary***, Profiles™ provides the details of each child's college needs based on the information entered on the ***College Funding*** screen. While the ***Annual Need (today's Dollars)*** amount is the amount displayed in the similarly-named field on the ***College Funding*** screen, the ***Present Value of Total Cost*** amount is a two-part calculation as shown below.

Next, under ***Savings Summary***, Profiles™ provides the total of the clients' current savings as well as the present value of monthly savings. As shown previously, while monthly savings are assumed to occur at the beginning of each month, when calculating the present value it is important to recognize that the rate of return, while calculated on a monthly basis, is not compounded monthly. Instead, Profiles™ converts the stated ***Average Rate of Return*** to a monthly return as follows:

Monthly Average Rate of Return:	In this case:
$(1 + i)^{(1/12)} - 1$	$(1 + 0.04)^{(1/12)} - 1 = 0.3274\%$

After calculating the college needs that can be met using current and monthly savings, the question of whether the clients can meet their children's college needs can be answered. In cases where the clients have sufficient resources to meet college needs, the report provides a ***Surplus*** amount. In contrast, if additional capital is needed, Profiles™ calculates the amount which would need to be invested into an account today earning the stated ***Average Rate of Return***, and displays this amount as a ***Single Sum Needed Today to Fund Shortage***. Because in many cases the clients will be unable to come up with the amount needed as a single sum, Profiles™ also displays the required monthly savings amount. Each amount represents a strategy that could be considered by the clients to meet the goal.

Returning to the case of Paul and Amanda, we can see that they will not currently be able to meet Brent's college needs. They could consider as a strategy either monthly savings of $210 or investing a lump sum today of $25,989, as indicated beside ***Single Sum Needed Today to Fund Shortage***, and calculated as follows:

Present Value of Total Need:	$73,361.00
less Present Value of Savings:	$47,372.00
= Single Sum Needed Today to Fund Shortage:	**$25,989.00**

In contrast, in cases where the clients require a lesser level of detail, the ***College Needs Analysis*** report uses graphs and corresponding text to provide much of the same information. Starting at the top right of the page, a bar graph illustrates the clients' ability to meet their children's college needs. In cases where college needs have been set-up for more than one child, the graph combines all college needs. When savings and investments are available to meet the projected cost, the bar or portion of the bar is displayed in blue, whereas once funds are depleted, unmet needs, or deficits are displayed in red.

In addition, the text box at the top left displays both the current and monthly savings as well as the rate of return. Lastly, to ensure that the clients are aware of the monthly savings strategy required to meet the goal, the additional savings amount is included on the report.

Because clients will have different needs, the ***College Needs Analysis*** and ***College Needs Analysis Details*** reports can be used separately or in combination to meet a wide variety of needs.

DID YOU KNOW? In cases where the ***College Funding*** and ***Needs in the Event of Death*** modules have been selected on the ***Case Setup*** screen, by default Profiles™ includes in immediate cash needs at death the amount needed to fund each child's education goal. To override the default, refer to the ***In the event of a death, should the children's education be funded?*** option on the ***Survivor Needs*** screen.