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MENTOR
C A P I T A L

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Mentor Monthly Missive

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How to ease the dread of paying for college

There is high anxiety these days about paying for children's college education. Costs keep rising at more than double the inflation rate, and investment returns have been puny. Funding a college education is a serious issue, with many considerations, but it doesn't have to create dread. Here are some basic principles that may help parents rest at ease:

1. Saving for your own retirement is more important than saving for college.

Your children will have more sources of money for college than you will have for your golden years, so don't sacrifice your retirement savings.

2. If you start saving sooner, rather than later, you'll be ahead of the game.

Even modest savings can pack a punch if you give them enough time to grow. Investing just \$100 a month for 18 years will yield \$48,000, assuming an 8% average annual return.

3. Stocks are best during the early years for your college savings portfolio.

With tuition costs rising faster than inflation, a portfolio tilted toward stocks is the best way to build enough savings in the long term. As your child approaches college age, you can shelter your returns by switching more money into bonds and cash.

4. You don't have to save the entire cost of four years of college.

Federal, state, and private grants and loans can bridge the gap between your savings and tuition bills, even if you think you earn too much to qualify. And who says the child can't work to help pay part of the cost?

5. 529 savings plans are a good way to save for college and offer tax breaks.

Qualified withdrawals are now free of federal tax and most plans let you save in excess of \$200,000 per beneficiary. Plus, there are no income limitations or age restrictions, which means you can start a 529 no matter how much you make or how old your beneficiary is. Also, Illinois residents get a tax deduction if they use Illinois' 529 plan.

6. Tax breaks are almost as good as grants.

You may be able to take two federal tax credits, the American Opportunity Tax Credit and Lifetime Learning Credit, in the years you pay tuition.

7. The approval process for college loans is more lenient than for other loans.

Late payments on your credit record aren't automatic grounds for refusal of a college loan.

8. Lenders can be flexible when it's time to repay.

There are still ways to cut costs after a student graduates and begins repaying student loans. For instance, there is often a quarter-percentage-point interest rate decrease if you set up automatic debit, in which monthly payments are automatically taken from your account.

9. Taxpayers with student loans get a tax break.

You may deduct the interest you pay up to \$2,500 a year if your modified adjusted gross income is less than \$70,000 if you're single or less than \$145,000 if you're married filing jointly. The deduction can be taken for the life of the loan.



A few words about the “B” word

In these trying economic times, the word “bankruptcy” is increasingly on the lips of consumers. This is an unfortunate result of the high level of debt consumers have taken on and the poor job market.

With bankruptcy laws being as complicated as they are, there is a lot of misunderstanding. Nothing is simple about bankruptcy, either Chapter 7 (liquidation) or Chapter 13 (reorganization). Advice from a qualified, experienced attorney is essential.

A lot of the confusion surrounding bankruptcy is related to passage in 2005 of the federal Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA). The Act was passed under the perception that many people who could afford to pay their debts were being allowed to erase them.

Here are some basics about personal bankruptcy, in light of BAPCPA:

- Chapter 7 liquidations, in which most debts are forgiven (or “discharged”), are still available. However, they are more difficult to qualify for.
- Under BAPCPA, filings under Chapter 7 that are determined to be “abusive” (where the debtor’s income is high, compared to the median income of the debtor’s state) are forced into Chapter 13.
- Chapter 13 reorganizations, supervised by the bankruptcy court, involve a plan for the debtor to repay his or her debts over a three-to-five-year period. Usually, the amounts repaid are less than what is owed.
- Some debts cannot be discharged in a Chapter 7 bankruptcy. These include child support, taxes, student loans and fines for crimes committed by the debtor. Alimony and property settlements in a divorce are not covered by a bankruptcy filing.
- Most secured debts (mortgages and car loans) remain even after a liquidation.
- Presumption of fraud in the use of credit cards was expanded under BAPCPA. Credit card purchases of luxury goods and cash advances receive closer scrutiny and may not be dischargeable under Chapter 7.
- A record of a Chapter 7 bankruptcy remains on a consumer’s credit report for 10 years; Chapter 13, 7 years.



Kids will be kids – or not?

Does your daughter's schedule look anything like this?

Monday: Band practice, school, dance class

Tuesday: School, tae kwon do

Wednesday: Band practice, school, cheerleading practice

Thursday: School, tae kwon do

Friday: Band practice, school, football game

Saturday: Gymnastics, karate tournaments

Sunday: Church, play with friends

We hope not. What is missing in that schedule? Where does homework, family time, relaxing, reading, meals, being a kid and sleep fit into that schedule? Don't tell us – your child wants to do all that, right? Or maybe all those extracurricular activities were your idea. You only want what's best for your child. If she is going to make the

cheerleading squad and take state in tae kwon do it's going to take some dedication.

Hello! Your child is 10! Let her be a child. Growing up goes way too fast, don't hurry it along. Children need to be children while they can. Once they hit high school there will be much more pressure to excel because college will be right around the corner. Children should have two main responsibilities: Being a child and being a student. How can they become proficient in either if they are overscheduled, overworked and constantly on the go?

Sure extracurricular activities can have a very positive influence on your child's development. But so can good grades and quality family time. What would happen if you limited your child's extracurricular events to just one activity?

Let her chose the one after school activity to participate in. It may not be a popular decision, but it's a wise decision. Do you want to be your child's friend or your child's parent? Explain that it is not a punishment. Remember, you don't have to justify your actions. What you do need to do is make the best choices for your children while they are still young. Doing so will equip them to make their own smart decisions later in life.



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