

EXHIBIT
Optimal Savings Vehicle Allocations

Income Level (AGI)	Less than \$55,000	\$55,000–\$76,000	\$76,000–\$160,000	Greater than \$160,000
Funds Needed: Public college: for 1 child Total need: \$127,000	Federal grants fund \$21,600 Remainder comes from 529 plan (requires \$3,000/year for 15 years)	Tradeoff: IRA (leading to loss of grant aid) versus 529 (penalty for potential nonuse)	Entire cost can be funded from Roth IRA contributions, still leaving a positive Roth IRA balance of \$309,000 ¹	Entire cost funded from combination of nondeductible IRA and 529 contributions. 529 for minimum expected costs, nondeductible IRA for the balance
Funds Needed: Public college: for 2 children Total need: \$270,000	Federal grants fund \$53,200 Remainder comes from 529 plan (requires \$6,500/year for 15 years)	See above	Almost all can be funded through Roth IRA contributions and direct payments in college years (\$268,000), leaving tax-free Roth IRA balance of \$225,000 in earnings ²	See above
Summary	Federal Grant Aid plus 529	Tradeoff: IRA versus 529	Roth IRA	Nondeductible IRA plus 529

Notes and Assumptions:

1. Maximum contributions of \$172,000 + \$62,000 direct payment during college years + interest earned \$202,000 – tuition costs of \$127,000

2. All contributions (\$172,000) are withdrawn tax-free from the parents' Roth IRAs to supplement \$96,000 in direct payments during college years, leaving interest earned of \$225,000 for retirement.

The analysis assumes the following:

- Two parents and two children, ages 3 and 1. Children begin full-time study at age 18.
- Public college costs (currently \$12,127 average per year) increase at 6% annually (\$127,000 for first child, \$270,000 for both).
- Retirement and 529 plans earn a 7% return; IRA contribution limit COLA-indexed at 3%.
- Federal grant aid capped at \$5,400 in 2012 (based on proposed 2008 federal budget increases, coupled with elimination of FSEOG). If grants increase, parents can reduce 529 contributions.
- Amounts equal to maximum IRA amount for two parents (one, for AGI less than \$55,000) are spent directly during college years.