UW Extension

Money 2000 and Beyond

University of Wisconsin-Extension Family Living Programs

NEWS
January-March 2001

New tax incentives to save for college

Beginning January 1, parents or legal guardians can contribute up to $3,000 a year for each dependent child to **EdVest**, the state's college savings program. These contributions to an EdVest account are deductible from Wisconsin income tax. In addition, investment earnings used for qualified higher education expenses are exempt from state income tax.

Federal income tax on investment earnings is deferred until funds are withdrawn. Then the earnings are taxable as ordinary income at the student's tax rate.

There is no income limit for participating in EdVest. Participants may save for up to five years of undergraduate costs and for graduate school expenses. The minimum investment period has been reduced from four to two years so families with older children can also participate.

Money invested in the program can be used to cover expenses for tuition, fees, room and board, books and equipment required for attendance at thousands of eligible public and private institutions nationwide.

To encourage families to save in advance for college costs, assets in an EdVest account will not affect a family's eligibility for state financial aid in Wisconsin.

Because EdVest accounts are intended to be used for higher education expenses, refunds are generally not available prior to the beneficiary's 18th birthday. Full refunds (principal and earnings) are available in the event of the beneficiary's death or permanent disability, or receipt of a tuition waiver or scholarship that cannot be converted to cash.

Federal tax law requires state programs to impose a 10 percent penalty on earnings for all other refunds, such as if a child elects not to pursue higher education, fails to gain admission, fails to complete a program of study, or other refund circumstance.

Starting early in 2001, EdVest will also open new variable investment options, such as a stock index fund and an age-based fund that automatically balances a mix of fixed and variable investments according to the beneficiary's age. Until now, EdVest only offered a fixed investment program.

Gift tax incentives

Grandparents, aunts or uncles can also contribute to an EdVest account. Special federal gift tax provisions allow putting as much as $50,000 into a child's account in a single year with no gift tax, as long as there are no additional gifts to the same account within a five-year period. Amounts gifted to an EdVest account will be excluded from the gifter's gross estate for federal estate tax purposes.

For more information on EdVest, call:
(888) 338-3789

Or visit the Web site:
www.edvest.state.wi.us

To compare similar programs in other states:
www.collegesavings.org

Contribute up to $3,000 a year to an EdVest account for your child's college costs and save on your taxes.

Are your savings in low-interest accounts?

Americans are losing out on $30 to $50 billion in savings interest each year.

U.S. consumers could earn $30 to $50 billion more in interest each year. How? By shifting the more than $1 trillion they now keep in low-yielding savings accounts (passbook or statement savings) into higher-rate savings vehicles that are just as safe.

While this potential gain is a huge sum, those figures do not capture the full sense of how the long-term American savings picture could improve if consumers moved their money into **higher-interest alternatives** — high-rate savings accounts, money market deposit accounts, certificates of deposit (CDs), or Series EE or I U.S. Savings Bonds.

The roughly $1 trillion in low-interest savings accounts at the current 2.1 percent interest average will yield a total of $2.3 trillion in savings in 40 years — doubling the original sum. **By contrast, the same amount of money invested for 40 years at 7.1 percent would yield $15.5 trillion — more than 12 times the original principal.**

Why do so many people keep low-rate savings accounts? Lack of awareness about interest rates of various savings options is one main reason.

Here is what savers say:

- Most of those with a savings account (57 percent) do not know the interest rate on this account.
- Nearly one in three (30 percent) wrongly thinks there is little difference in the interest paid by savings and by a certificate of deposit (CD). *Most CDs currently pay rates that are at least 3 percentage points higher than rates on savings accounts.*
- Nearly half (45 percent) don't consider U.S. Savings Bonds an attractive savings vehicle. *Yet Series I bonds currently pay rates that are about 5 percentage points higher than rates on savings accounts.*
- Even more cite convenience and federal deposit insurance as factors. Nearly two-thirds (63 percent) keep their savings deposits in a local bank or credit union where they maintain a checking account. *Ask your bank or credit union what better deals they offer than their regular savings accounts.*
- Savers don't want to tie up their money in CDs (46 percent). *This obstacle could be reduced by* **laddering** *the CDs — dividing savings into several CDs with different maturity dates (3 months, 6 months, 1 year) or timing the maturity to the date when the money is needed.*

Source: *Study of Federal Reserve data commissioned by Consumer Federation of America and Providian Financial Corporation, reported October 17, 2000.*

Lower thermostats to reduce heating bills

With natural gas prices more than 65 percent higher than a year ago and forecasters predicting a continued cold winter, act now to reduce your home energy use.

The easiest way to save energy is to lower your thermostat setting, according to University of Wisconsin-Extension housing specialist John Merrill. For every degree you dial down, you reduce your energy use by 2.5 percent. Many people find that after they are used to it, they prefer living in a cooler house.

You can dial down at night and have the house warm when you wake up if you have a **set-back thermostat**. You also can dial down when you are gone during the day.

Cooler temperatures will be more comfortable if you eliminate drafts, and windows aren't leaking air. If your windows rattle in the wind or the curtains flutter, you probably need to replace the weather stripping. If it's too cold, you can stuff rope caulk in cracks for the winter. This can be applied in very cold weather and removed in the spring without damaging the woodwork.

Using a plastic window wrap kit will do the same thing and reduce the chances of moisture condensing on your windows. Closing blinds or drapes in the evening can also increase comfort.

Adding insulation and replacing windows are two other possible steps. If you don't have at least 12 inches of insulation in your attic, that is the place to start. It is relatively inexpensive and will usually save enough energy in a few years to pay back the cost.

Another low-cost action with a quick payback is insulating the box sill area of your basement. This is the area at the top of the foundation wall where the floor supports rest. You can do it yourself by adding pieces of paper-faced fiberglass insulation in each of the openings. The insulation should fit tightly.

For more information, contact your county UW-Extension office or local utility company.

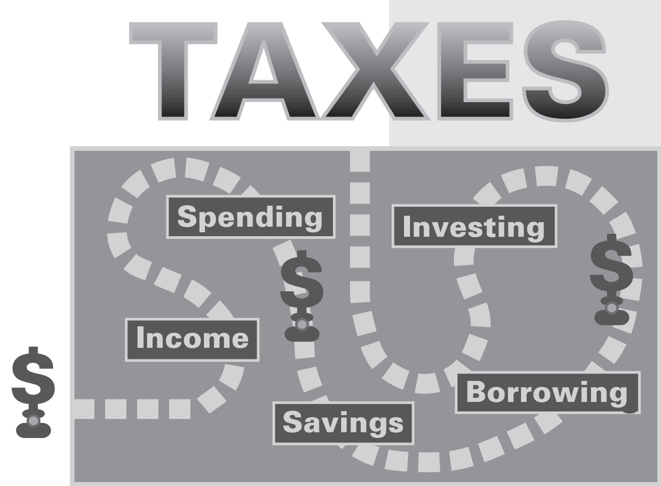
Learn more about selecting set-back thermostats: www.epa.gov/appdstar/hvac/thermostats.html

Tax changes for 2000

- Standard deduction:
  $4,400 for single filers
  $7,350 for married, filing jointly
- Personal exemption—$2,800
- Student loan deduction—up to $2,000
- Maximum income limit for deductible IRA:
  $42,000 for single filers
  $62,000 for married, filing jointly

For more information, contact the IRS:
(800) 829-1040
TDD: (800) 829-4059

Or visit their Web site:
www.irs.gov



Internet access is available at many public libraries or other public places in your community.

Consolidate student loans

You can simplify your student loan payments and save money on interest rates by taking advantage of a Higher Education Act (HEA) provision for loan consolidation. Under the Federal Family Education Act (FFEA) and the Direct Loan Program, your student loans are paid off and a new consolidated loan is created.

If you consolidate your student loans into the federal Direct Consolidation Loan Program before September 30, 2001, your interest rate will be reduced by 0.8 percent. If you then make your first 12 monthly payments on time, you will retain the 0.8 percent reduction until the Direct Consolidation Loan is paid in full!

For example, if your Direct Consolidation Loan interest rate is 8.25 percent, your interest rate drops to 7.45 percent! And, if you pay on time, you keep that interest rate — saving you more than $400 for every $10,000 borrowed over a standard 10-year term.

When consolidating, you can choose from several repayment plans, which may result in a lower monthly payment amount and an extended time to repay. This may make your debt more manageable. Keep in mind, however, that smaller total monthly payments for a longer period will increase total interest paid over the life of the loan.

Contact the U.S. Dept. of Education Direct Loan Consolidation Center:

(800) 557-7392 TDD: (800) 557-7395
7 a.m. to 7 p.m. CST weekdays
www.loanconsolidation.ed.gov

University of Wisconsin-Extension provides equal opportunities and affirmative action in employment and programming, including Title IX and ADA requirements. Thanks to Iowa State University Extension for permission to adapt and reprint portions of this material.
I-M2K-NEWS-6