

Mary Rowland Answers Members' Questions

Mary Rowland Personal Finance Column – March 2007

As a financial writer, I've noticed over the years that many of the readers who contact me at various publications are teachers. Not only do teachers make up a good share of my correspondents, but they never ask a question like: "How can I get started saving money?" Instead, they ask some of the most arcane, technical questions that I've received.

So I wasn't surprised to learn that a recent study by Harris Interactive, Inc. found that teachers are ahead of most other investors in terms of developing a financial plan, saving regularly and setting other financial goals.

The study, released by AIG VALIC, a Houston-based subsidiary of New York's American International Group, showed that teachers tend to plan more and better than those in other professions. The study was reported in the Dec. 4, 2006, issue of *Investment News*, an industry trade publication. A full 65 percent of the teachers surveyed saved money each month. Teachers were also more likely to set savings goals and to work with a financial advisor.

Most teachers plan their careers, start out young in their professions and plan for their financial goals and retirement years as carefully as they make lesson plans for their classes, according to Doug G. Neal, a financial planner in Houston who is a former teacher himself. "The planning part for a teacher isn't unusual," Neal told *Investment News*, "because they are used to doing that." Neal also noted that teachers tend to earn less than those in the corporate world and that they watch their pennies more carefully.

But I already knew that.

Q: What do you think of 529 plans as a saving-for-college option?

A: These plans look better than ever, thanks to action by Congress in August to make the federal tax breaks, scheduled to expire in 2010, permanent. The plans, authorized by Section 529 of the Internal Revenue Code, offer several advantages to those saving money for college.

You contribute after-tax money to the 529 account. You pay no federal tax on the earnings provided the money is spent for qualifying college expenses. Your child does not have control of the account. You do. If the child chooses not to go to college, you can roll the account over to another family member.

There are no income limitations that might make you ineligible to open an account. Most states have no age limit for when the money must be used. And many states are making their plans more attractive by reducing fees, and moving to lower-cost providers. Some, like Pennsylvania, now allow residents to take a state tax deduction for contributions to any state's 529 plan rather than just its own. If your child gets a scholarship, unused money in the plan can be withdrawn without penalty, although you must pay taxes. The action by Congress to make the tax breaks permanent will no doubt further increase interest in these plans, which will prompt vendors to offer ever more attractive features.

Q: What is the best investment for 2007?

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A: That's like asking which is the best diet, South Beach or Pritikin's. The answer is the one that works for you. Most investments in the stock market do well over time. But picking the right time to dive in is very difficult. Like the South Beach diet, you need to make a commitment to losing weight (or in this case earning money) and then stick with it for the long term. Patience is the best investment for 2007.

Q: Any tax quirks to be aware of this year?

A: Three deductions that expired last year were not included when the 2006 tax forms were printed, only to be reinstated by Congress toward the end of the year. Because the deductions will not appear on the 2006 tax forms, the Internal Revenue Service released special instructions for these deductions. Did you miss them?

If you plan to claim the higher-education tuition-and-fees deduction, list it on line 35 of the Form 1040. This would be the line that reads "Domestic production activities deduction." Enter a "T" on the dotted line to the left of that line entry. If you are claiming both, you will have to enter a "B" and provide a breakdown of your deductions.

Congress also reinstated a provision for taxpayers who itemize to deduct state and local sales taxes rather than state and local income taxes if they choose. If you do, enter the amount on Form 1040, Schedule A, on line five, the line that reads "State and Local income taxes." Enter an ST to the left of line five on the dotted line to show that your deduction is for sales tax rather than income tax.

The third change involves teachers in elementary and secondary schools who are eligible to deduct out-of-pocket classroom expenses. This deduction should be entered on line 23, which reads "Archer MSA Deduction." If you are claiming the educator expense deduction, enter E on the dotted line to the left. If you also plan to claim the Archer deduction for medical savings accounts, use B rather than E.

If you do make any of these changes, don't be too quick to file your return. The IRS won't be able to process returns claiming these three deductions until February.

Mary Rowland is a nationally known business and finance writer. The former personal finance columnist for The New York Times and former co-host of a nationally syndicated radio show, Ms. Rowland is the author of several investment books and speaks regularly to consumers and financial planners about investing and personal finance.