

GCU Annuities and Education Savings

Changes in the tax laws affect three major areas in planning for education.

- ◆ Educational IRA's
 - ◆ Student Loan interest deduction
 - ◆ Above the line tax deduction for tuition expenses

The changes to Educational IRAs will have the most impact on GCU Educational IRA plan holders. The major change allows for the increase of the maximum annual contribution to these plans from \$500 to \$2000. This change takes effect for calendar year 2002. This means that the maximum contributions to an Educational IRA now totals \$36,000 if the account is opened for a newborn child. This, coupled with the effect of compound interest, makes these accounts a more meaningful part of the funding for a child's higher education.

A second change in this area allows funds to be withdrawn tax-free from these accounts for use in the cost of private elementary and secondary education expenses. This means that the interest on these accounts will be tax-free as long as the funds are used for approved educational expenses.

Also beginning in 2002, the new law raises the income ceiling for student loan interest deduction from \$50,000 for single taxpayers to \$65,000. Income limits for married couples will rise to \$130,000 from \$100,000. The new law will also allow for all interest payments to be deductible rather than just those in the first 5 years of the repayment schedule.

The final area affected by the new legislation is an above the line income tax deduction of up to \$3000 for qualified tuition expenses beginning in tax year 2002. The same income levels outlined above apply to this deduction. This income tax deduction will increase to a maximum of \$4000 beginning in tax year 2004. At the present time this deduction is scheduled to be eliminated beginning in tax year 2006.

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