Life Guide

Paying for College

If you want your children to benefit from a college education, it's never too early to start saving. Let's face it, a college education is expensive...in fact, it might be one of the largest outlays you ever make. The good news is that families who want to save for their children's college education now have more options available than ever before.

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Paying for a College Education

An investment in a child's college education has the potential to result in a lifetime of increased earnings.

According to the College Board's Education Pays 2023, full-time workers ages 25 and older with a bachelor's degree earned a median income in 2021 of $73,300, over 65% more than the $44,300 earned by a full-time worker with only a high school diploma. Those with master's degrees earned a median income of $87,300, which rose to $121,600 for those with a professional degree.

There are a variety of ways you can finance your investment in your children's college education. Many, if not most, families utilize a combination of these methods to finance a college education:

- ☐ **Pay from Current Income:** You can plan to pay all or a portion of a child's college expenses out of your income at the time the child enters college. If your then-current income is substantial, it may be feasible to handle all college costs on a pay-as-you-go basis. Otherwise, it could require substantial reductions in your spending and lifestyle. Children can also be expected to contribute toward the cost of their college education through part-time work. While this is not an unreasonable expectation, it can be a distraction (particularly in the first several years) from what should be their primary focus of getting the most from a college education.

- ☐ **Borrow:** Student loans are available, but do you want your children beginning their working lives with substantial debt? Some level of student loans may be necessary, but fully financing a college education through student loans could burden your children with student loan repayments for many years, limiting their ability to, for example, purchase a home. Alternatively, some parents assume debt themselves, such as through home equity loans, to finance a child's college education. Some level of parental debt may be reasonable, but not if it undermines your personal financial security and/or your future retirement security.

- ☐ **Financial Aid:** Grants and scholarships are a great way to finance a college education, since they do not have to be repaid. It's quite rare, however, for grants and/or scholarships to pay the full cost of a college education. Keep in mind as well that grant and scholarship funding can vary from year to year, from region to region, from college to college and from student to student.

- ☐ **College Savings:** Saving now for future college expenses may help you feel more confident that your children will be able to select colleges that best meet their needs and you will not be overly dependent on outside sources, such as grants, scholarships and loans, the availability and terms of which can change.

☐ **What Does a College Education Cost Today?:** The cost of a college education varies by type of college (public or private), region of the country and residency status (public colleges). There are, however, some averages you can take into account in your planning.

Approximate Undergraduate Costs (2023-2024) for a Full-time Student to Attend a Four-Year College

	Annual Cost
Public School:	
Resident Student *	$24,030
Commuter Student **	$11,260
Private Nonprofit School:	
Resident Student *	$56,190
Commuter Student **	$41,540

* Includes tuition, fees, room and board; in-state residency is assumed for public schools.

** Includes tuition and fees only.

Source: The College Board Annual Trends in College Pricing 2023

Note: While these are the average published tuition, fee and room and board charges, many students actually pay less due to grant aid and federal tax benefits.

☐ **What Will a College Education Cost in the Future?:** Although only partially true in 2023-24, college costs have historically been rising at a faster rate than the general inflation rate.

Over the decade between 2013-14 and 2023-24, average inflation-adjusted tuition and fees declined by 4% at public four-year institutions and increased by 5% at private nonprofit four-year institutions? (source: The College Board Trends in College Pricing 2023).

Ways to Reduce College Costs

There are a variety of ways to reduce college costs, including:

- ☐ **Public versus Private:** Your child does not have to attend an Ivy League college in order to receive an excellent education. Check out the public colleges in your state, which typically charge considerably less tuition than private colleges. In addition, there are well-regarded private colleges that do not charge "Ivy League tuitions."
- ☐ **Community Colleges:** Community colleges are typically less expensive than 4-year universities, plus offer students the financial advantage of being able to live at home. Check into fulfilling basic course requirements at a community college and then, after the second year, transfer those credits to the 4-year college of your choice (make sure the community college credits will be accepted!).
- ☐ **Live at Home:** Attend a nearby college and live at home, at least for a year or two. Eliminating room-and-board expenses can substantially reduce college costs.
- ☐ **Scholarships:** There is a lot of scholarship money available. Many of the scholarships offered are for smaller amounts of money, but it can add up. In addition to academic and athletic scholarships, there are also scholarships available for talents in areas such as music and art. Finally, community groups often provide scholarships to local students, as do various affinity organizations, such as Lions Clubs and Rotary Clubs. High school counselors can be a valuable source of information on available scholarships.
- ☐ **Tuition Reduction/Reimbursement Plans:** Check with colleges under consideration for any tuition reduction plans offered. For example, some colleges offer reduced tuition to the children of alumni or to children of college employees. Check and see if your employer has any educational benefits available to the children of employees.
- ☐ **Accelerate Graduation:** Take as many course credits as realistic each semester in order to earn a degree in a shorter period of time. Check out advanced placement programs.
- ☐ **Work/Study Opportunities:** Work/study programs provide part-time jobs for undergraduate and graduate students with financial need, allowing them to earn money to help pay education expenses. In addition, many colleges offer employment opportunities in both housing units/dorms and on campus.
- ☐ **AmeriCorps (www.americorps.gov):** AmeriCorps offers opportunities for adults of all ages and backgrounds to serve through a network of partnerships with local and national nonprofit groups. In return, a modest living allowance is available, plus an individual who successfully completes his/her AmeriCorps service receives an AmeriCorps Education Award, which can be used to pay educational expenses at qualified institutions of higher education, for educational training, or to repay qualified student loans.
- ☐ **Service Academies/ROTC:** Consider applying to one of the service academies, or enrolling in ROTC to save on tuition, fees and book costs. Remember, though, that these educational opportunities come with a service commitment following graduation.
- ☐ **Financial Aid Office:** Make contact with the financial aid offices at the colleges under consideration. They can serve as an excellent resource for the types of financial aid available at their respective colleges.

Financial Aid Basics

Financial aid is money made available to students to help pay their college costs. Financial aid can be in the form of grants and scholarships, which do not have to be repaid, in the form of loans, which do have to be repaid, or in the form of a work-study program, which requires the student to work for a specified number of hours each week in return for money to pay college expenses. In addition, financial aid comes in the form of merit-based and need-based financial aid.

Financial aid can be a confusing topic, but it's important that you develop a basic understanding. In addition, keep in mind that the kinds and amounts of available financial aid vary from year to year, making it difficult to plan in advance on receiving specific amounts of financial aid.

You can find more information on financial aid at: www.studentaid.gov.

☐ **What Is Merit-Based Financial Aid?:** Merit-based financial aid is available in the form of grants or scholarships provided to develop abilities in certain areas, such as music, art, athletics and specific areas of academic studies. Merit-based financial aid is provided by colleges, foundations, businesses and associations. In fact, some colleges will offer a merit-based financial aid package in order to attract the brightest students. As your child approaches college age, explore websites that match a student's background and abilities with possible scholarship/grant opportunities.

☐ **What Is Needs-Based Financial Aid?:** Need-based financial aid is provided by governments (primarily federal, but some state), as well as by colleges, and is based on financial need as determined by a formula. In order to be considered for federal financial aid, the Free Application for Federal Student Aid, or FAFSA, must be completed. Most colleges use an application called PROFILE from the College Board, while some colleges use their own need-based financial aid application. States may use the FAFSA or they may have their own application…check with your state's higher education authority.

☐ **Completing the FAFSA:** The FAFSA uses a formula known as the "federal methodology" to determine your child's financial aid eligibility and should be filed as early as possible in the year in which your child will be attending college. The Department of Education has a website for this purpose at https://studentaid.gov/apply-for-aid/fafsa/filling-out.

☐ **Completing the PROFILE:** The PROFILE uses a formula known as the "institutional methodology," which is similar to the federal methodology, but generally takes into account more of your assets in determining your child's financial aid eligibility. The deadline for receipt of the PROFILE financial aid application is up to the individual college. The College Board has a website for this purpose at https://cssprofile.collegeboard.org/.

☐ **Putting It All Together:** The end result of the financial aid application process is the amount you will be expected to contribute to your child's college education. The difference between that figure and the cost of a year at the selected college then becomes your child's financial need. The financial aid office at the selected college will work with you to put together a package consisting of scholarships, grants, work-study and student loans to meet your child's financial need.

Student Aid Grants

The beauty of student grants is that they do not have to be repaid. To be eligible for federal student aid grants, you must complete the FAFSA.

The primary student aid grant programs currently available from the federal government include:

☐ **Federal Pell Grant:** Pell Grants are considered a foundation of federal financial aid, to which aid from other federal and non-federal sources might be added. The maximum Pell Grant award for the 2023-24 award year (July 1, 2023 to June 30, 2024) is $7,395. The maximum amount can change each award year and depends on program funding. The amount a student receives will depend not only on financial need, but also on the costs to attend school, status as a full-time or part-time student, and plans to attend school for a full academic year or less.

☐ **Federal Supplemental Opportunity Grant (FSEOG):** FSEOGs are for undergraduates with exceptional financial need. Pell Grant recipients with the lowest expected family contributions will be considered first for a FSEOG. A student can receive between $100 and $4,000 a year, depending on when application is made, financial need, the funding at the school attended, and the policies of the financial aid office at the school.

☐ **TEACH Grant Program:** The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program provides grants of up to $4,000 per year to students who intend to teach in a public or private elementary or secondary school that serves students from low-income families. Due to sequestration, however, that amount is reduced by 5.7% to a maximum award of $3,772 for TEACH Grants first disbursed on or after October 1, 2022 and before October 1, 2024. In exchange for receiving a TEACH Grant, an individual must agree to serve as a full-time teacher in a high-need field in a public or private elementary or secondary school that serves low-income students. The recipient must teach at least four academic years within eight calendar years of completing the program of study for which a TEACH Grant was received. TEACH Grants are available without the requirement to demonstrate financial need, although the FAFSA must still be completed.

☐ **Iraq and Afghanistan Service Grant:** Provides a grant of up to $6,973.49 a year for the 2023-24 award year to students whose parent or guardian was a member of the U.S. armed forces and died as a result of performing military service in Iraq or Afghanistan after the events of 9/11. Must be ineligible for a Pell Grant due only to having less financial need than required to receive a Pell Grant and must have been under age 24 or enrolled at least part-time in an institution of higher education at the time of the parent's or guardian's death.

☐ **Other Grant Programs:** Colleges provide institutional grants to help make up the difference between college costs and what a family can be expected to contribute. Merit awards or merit scholarships are awarded on the basis of academic achievement. Some are offered only to students whose families demonstrate financial need; others are awarded without regard to a family's finances. In addition, check to see if your state provides any higher education grants.

Student Aid Grants (continued)

Federal Grant Program	Program Details	Annual Award Limits (subject to change)
Federal Pell Grant	Available almost exclusively to undergraduates, Pell Grants are the foundation of federal student financial aid, to which aid from other federal and nonfederal sources might be added. To determine eligibility for the Pell Grant program, first complete a FAFSA form, where you will answer questions to determine your eligibility for the Pell Grant among other government grants and funding. After you save and submit your initial FAFSA application, you will be notified by email or regular postal delivery if and when you receive Pell Grant funding. While students with a total family income up to $50,000 may be eligible for Pell Grants, most Pell funding goes to students with a total family income below $20,000.	Up to $7,395 per year; 2023-24 award year (July 1, 2023 to June 30, 2024) All eligible students will receive the Federal Pell Grant amount for which they qualify.
Federal Supplemental Educational Opportunity Grant (FSEOG)	For undergraduates with exceptional financial need; priority is given to Federal Pell Grant recipients; funds depend on availability at school.	$100 to $4,000 per year
Teacher Education Assistance for College and Higher Education (TEACH) Grant	For undergraduate, post-baccalaureate or graduate students who are/will be taking course work necessary to become elementary or secondary teachers. Must agree to serve for a minimum of four years (within eight years of completing academic program) as a full-time teacher in a high-need field in a school that serves low-income students. Must attend a participating college and meet certain academic achievement requirements Failure to complete the teaching service commitment will result in the grant funds being converted to a Federal Direct Unsubsidized Stafford Loan that must be repaid.	Up to $4,000 per year, adjusted for sequestration requirements ($3,772 for TEACH Grants first disbursed on or after Oct. 1, 2022 and before Oct. 1, 2024)
Iraq and Afghanistan Service Grant	For undergraduate students who are not Pell-eligible due to income requirements; whose parent or guardian died as a result of military service in Iraq or Afghanistan after 9/11; and who, at the time of the parent's or guardian's death, were less than 24 years old or were enrolled at least part-time at an institution of higher education.	Up to $6,973.49 per year; 2022-23 award year (Oct. 1, 2023 to Sept. 30, 2024)

Source: U.S. Department of Education, 2023-24 Federal Student Aid, http://StudentAid.gov

Student Loans

Students and their families have the primary responsibility of paying for college.

However, when the funds available aren’t enough, you need to look at other resources. First, you need to make the most of scholarships and grants. If you’ve already done that and still need more money, a student loan may be your best option.

Effective July 1, 2010, federal student loans are no longer available from private lenders. Instead, all new federal student loans will come directly from the U.S. Department of Education under the Direct Loan Program.

*The primary **federal student loan programs** currently available include:*

- ☐ **Direct Loans:** For undergraduate, graduate and professional degree students. You must be enrolled as at least a half-time student to be eligible. There are two types of Direct Loans available from the U.S. Department of Education: subsidized and unsubsidized. You must demonstrate financial need to receive a subsidized Direct Loan.
- ☐ **PLUS Loans:** Parental Loan for Undergraduate Students or PLUS Loans are loans parents can obtain to help pay the cost of education for their dependent undergraduate children. In addition, graduate and professional degree students may obtain PLUS Loans to help pay for their own education. There is no financial need requirement attached to PLUS Loans.
- ☐ **Consolidation Loans:** Consolidation Loans allow students or parents to combine multiple federal education loans into one loan with one monthly payment. There is no financial need requirement attached to Consolidation Loans. Students or parents consolidate their loans directly with the U.S. Department of Education.

Private student loans, which are nonfederal loans issued by a lender such as a bank or credit union, **remain available.** Federal student loans, however, typically offer borrowers benefits not usually found in private loans. These include lower fixed interest rates, income-based repayment plans, cancellations for certain employment and deferment options. As a general rule, consider exhausting federal student loan options before considering a private loan.

NOTE: It's important to understand that student loans are real loans, just like car loans or mortgage loans. You must repay a student loan even if your financial circumstances become difficult. Federal student loans usually can't be written off in bankruptcy and they can't be canceled because you didn't get the education or job you expected.

Federal Loan Program	Eligibility	Award Amounts	Interest Rates	Lender/Length of Repayment
Direct Subsidized Loans	Undergraduate students; must be enrolled at least half-time	Depends on grade level in school and dependency status Financial need is required for subsidized loans; government pays interest while students are in college and during grace and deferment periods; available loan amounts depend on year in school	5.50% for loans first disbursed on or after July 1, 2023 and before July 1, 2024	Lender is the U.S. Department of Education; repay Department Between 10 and 25 years to repay, depending on amount owed and type of repayment plan selected
Direct Unsubsidized Loans	Undergraduate and graduate students; must be enrolled at least half-time	Depends on grade level in school and dependency status Financial need not necessary for unsubsidized loans; available to undergraduate students; available loan amounts depend on year in school	For loans first disbursed on or after July 1, 2023 and before July 1, 2024, the fixed rate is 5.50% for undergraduates and 7.05% for graduate or professional students	Lender is the U.S. Department of Education; repay Department Between 10 and 25 years to repay, depending on amount owed and type of repayment plan selected
Direct PLUS Loans ***Parents***	 Parents of dependent undergraduate students enrolled at least half-time	Student's Cost of Attendance - Other aid student receives _________________________ = Maximum loan amount Borrower must not have negative credit history	Fixed rate at 8.05% for loans first disbursed on or after July 1, 2023 and before July 1, 2024	Same as for Direct Subsidized Loans above, except that Income Contingent Repayment Plan is not an option
Graduate and Professional Students	Graduate or professional degree students enrolled at least half-time	Graduate and professional students also must have applied for annual loan maximum eligibility under the Direct Loan Program before applying for a Graduate/ Professional PLUS loan		

Source: U.S. Department of Education, 2023-24 Federal Student Aid, http://StudentAid.gov

Repaying Student Loans

When it comes time to start repaying your student loan(s), you'll have a variety of repayment options to select from, including:

☐ **Standard Repayment Plan:** You'll pay a fixed amount each month until your loans are paid in full. Your monthly payments will be at least $50, and you'll have up to 10 years to repay your loans. Your monthly payment under the standard plan may be higher than under the other repayment plans because your loan will be repaid in a shorter period of time, which may result in you paying less interest.

☐ **Extended Repayment Plan:** You’ll pay a fixed annual or graduated repayment amount over a period not to exceed 25 years. If you're a FFEL borrower, you must have more than $30,000 in outstanding FFEL Program loans. If you're a Direct Loan borrower, you must have more than $30,000 in outstanding Direct Loans. You may find the extended plan advantageous if you need to make lower monthly payments than under the standard plan. Remember, however, that you may pay more in interest since you're taking longer to repay the loan.

☐ **Graduated Repayment Plan:** Your payments start out low and increase every two years. The length of your repayment period will be up to ten years. If you expect your income to increase steadily over time, this plan may be right for you. Although your monthly payment will gradually increase, no single payment under this plan will be more than three times greater than any other payment.

☐ **Income Based Repayment (IBR) Plan:** Under IBR, the required monthly payment is capped at an amount that is intended to be affordable based on income and family size. You are eligible for IBR if the monthly repayment amount under IBR will be less than the monthly amount calculated under a 10-year standard repayment plan. If you repay under the IBR plan for 25 years and meet other requirements you may have any remaining balance of your loan(s) cancelled. Additionally, if you work in public service and have reduced loan payments through IBR, the remaining balance after ten years in a public service job could be cancelled.

☐ **Income Contingent Repayment (ICR) Plan:** Available for Direct Loans only, this plan gives you the flexibility to meet your Direct Loan obligations without causing undue financial hardship. Each year, your monthly payments will be calculated on the basis of your adjusted gross income (plus your spouse's income if you're married), family size, and the total amount of your Direct Loans.

☐ **Income Sensitive Repayment Plan:** Available for FFEL loans only, your monthly loan payment is based on your annual income. As your income increases or decreases, so do your payments. The maximum repayment period is 10 years. Ask your lender for more information on FFEL Income Sensitive Repayment Plans.

NOTE: Additional information on federal student loan repayment options and eligibility can be found online at the Federal Student Aid Gateway: *http://studentaid.gov*

The federal government provides several tax credits and deductions for families who are saving for, or already paying, higher education costs or are repaying student loans.

There is no guarantee that these education tax incentives will remain available in future years:

- ☐ **American Opportunity Tax Credit (AOTC):** Beginning in 2009, the American Recovery and Reinvestment Act of 2009 renamed the HOPE Scholarship Credit to the American Opportunity Tax Credit (AOTC) and provided enhanced benefits:
  - May be elected during all four years of a taxpayer's, spouse's or dependent's college education.
  - Tax credit of up to 100% of the first $2,000 and 25% of the next $2,000 of qualified tuition and related expenses paid in 2023 (maximum of $2,500).
  - Phased out as 2024 adjusted gross income exceeds $80,000 for single taxpayers and $160,000 for married couples filing jointly.
  - Assuming certain conditions are met, 40% of the credit is refundable to lower income earners who pay little or no income tax.

- ☐ **Lifetime Learning Credit:** The Lifetime Learning Credit is equal to 20% of the first $10,000 of qualified tuition and related fees paid for all eligible students in 2024 (maximum of $2,000). In addition, it is:
  - Available for undergraduate, graduate-level and course work that improves job skills.
  - Phased out as 2024 adjusted gross income exceeds $80,000 for single taxpayers and $160,000 for married couples filing jointly.
  - Either the AOTC or Lifetime Learning Credit may be taken for the same student in any one year, but not both.

- ☐ **Student Loan Interest Deduction:** The Student Loan Interest Deduction is a deduction for interest due and paid on qualified education loans.
  - The deduction ($2,500 in 2024) is made in arriving at adjusted gross income.
  - The income phase-out ranges for the deductibility of interest paid on qualified education loans in 2024 are equal to $80,000 to $95,000 for single filers and $165,000 to $195,000 for joint filers.

Education Tax Incentives

In addition to tax credits and deductions, the federal government provides several tax incentives designed to assist families who are saving for, or already paying, higher education costs. These include:

☐ **Qualified Tuition Programs (Section 529 Plans):** A qualified tuition program is a tax-advantaged investment plan operated by a state (or a state agency) to help families save for future college education costs.

- The maximum amount that can be contributed to a qualified state tuition program varies from state to state, but can be substantial.
- While contributions to a Section 529 plan are not deductible for federal income tax purposes, some states allow residents to deduct contributions from state tax.
- Earnings on contributions to a Section 529 plan grow tax-free for as long as the money remains in the plan, which can produce substantially higher accumulations when compared to a college savings plan whose earnings are taxed each year.
- Finally, when it comes time to pay for college, distributions used to pay for qualified education expenses are entirely free from federal income tax, as is up to $10,000 for payments toward qualified education loans.

☐ **Education Savings Accounts:** Single taxpayers with adjusted gross income of up to $95,000 or married couples filing jointly with adjusted gross income up to $190,000 may contribute up to $2,000 per beneficiary (generally a child under age 18) per year to an Education Savings Account. The age 18 restriction is eliminated in cases where a beneficiary has "special needs."

- Contributions for the tax year may be made by April 15 of the following year.
- The contribution amount is gradually reduced to zero for adjusted gross income levels between $95,000 and $110,000 for single taxpayers, and between $190,000 and $220,000 for married couples.
- Contributions are not deductible, but earnings grow tax-deferred.
- Distributions from an Education Savings Account are not included in gross income to the extent that the distribution does not exceed the qualified education expenses incurred by the beneficiary during the year in which the distribution is made. Qualified education expenses for which non-taxable withdrawals can be used include expenses for qualified elementary and secondary schools (grades K-12; public, private or religious), in addition to the expenses of higher education. Qualified education expenses include tutoring, room and board, uniforms, computers and extended day program costs.
- The AOTC or Lifetime Learning Credit are coordinated with the tax exclusion for Education Savings Account distributions, meaning both can be used in the same year, so long as the credit and the exclusion cover different expenses.

☐ **Withdrawals from IRAs:** Amounts can be withdrawn penalty-tax-free from an IRA for the higher education expenses of the taxpayer and the taxpayer's spouse, child and grandchild. Income tax, however, may be payable on all or a portion of the distribution.

How Much Do You Need to Save?

The longer it is until your child will enter college, the more time your college savings have to potentially accumulate and grow. While it's never too late to start saving, the sooner the better!

For example:

If your child begins college in:	Estimated cost of four years of college[1]:		Level monthly deposits which will equal the college fund needed, assuming a 7% growth rate[2]:	
	Public School	Private School	Public School	Private School
5 years	$132,189	$309,100	$1,846	$4,317
10 years	$168,707	$394,493	$975	$2,279
15 years	$215,318	$503,483	$679	$1,588

[1] Based on the College Board Trends in College Pricing 2023, which estimates that costs for a full-time student average $24,030 for a public school and $56,190 for a private nonprofit school, inflated at an assumed 5% average annual college inflation rate. Includes tuition, fees, books and room and board costs; in-state residency is assumed for public schools.

[2] Assumes a 7% annual after-tax return on savings. No additional savings are assumed once the child starts college. This is a hypothetical illustration only and is not indicative of any particular investment or investment performance. It does not reflect the fees and expenses associated with any particular investment, which would reduce the performance shown in this hypothetical illustration if they were included. In addition, rates of return will vary over time, particularly for longer-term investments.

Since many families are not in a position to fully fund a child's college education from savings, you need to set a college savings goal by understanding the college financial aid options available, deciding how much of the college expenses you will pay from current income and then determining what amount of your child's education you wish to pay from savings.

> The Consumer Financial Protection Bureau and the Department of Education have developed the "Paying for College" website that helps you make informed financial decisions about paying for college. It is available at http://www.consumerfinance.gov/paying-for-college/.

Once you establish savings objectives, you need to decide which college savings plan or plans you will use for your college savings.

College Savings Plan Options

While paying for college has never been easy, the increasing costs of a college education make it even more challenging today. Even with the availability of student financial aid programs, most families will still need and want to contribute toward the cost of their child's college education. Fortunately, there are a variety of strategies that can be utilized to help save for college costs:

☐ **Qualified Tuition Programs (Section 529 Plans):** Section 529 Plans allow you to either prepay your child's college tuition or contribute to an account established to pay the qualified higher education expenses of your child. While contributions to the account are not tax deductible for federal income tax purposes, investment growth is tax deferred and distributions used to pay for qualified higher education expenses are exempt from federal income tax. Another nice feature of Section 529 plans is that they are set up by adults who name a child as the beneficiary. If the child completes college and there are funds remaining in the Section 529 plan, a new beneficiary, such as a younger brother or sister, can be named. Alternatively, remaining amounts can be distributed to the account owner or another family member. Funds withdrawn for non-educational use (a non-qualified distribution), however, are subject to ordinary income tax on the earnings portion, which is also subject to a 10% penalty tax. State income tax may also be payable.

While authorized by federal law, Section 529 Plans are operated by the states. The rules, requirements, fees and expenses of Section 529 Plans vary from state to state, as does state and local taxation of contributions and distributions. For example, some states allow Section 529 plan contributions to be deducted for state income tax purposes.

☐ **Education Savings Accounts:** Taxpayers within specified adjusted gross income levels may contribute up to $2,000 per year per beneficiary to an Education Savings Account. While contributions are not tax deductible, earnings grow tax deferred and are distributed tax free, provided they are used to pay the beneficiary's qualified education expenses.

☐ **U.S. Savings Bonds:** Subject to certain limits, interest on series EE and I savings bonds may be excluded from income if used to pay qualified education expenses in the year the bonds are redeemed.

☐ **Savings/Investment Accounts:** Depending on your risk tolerance, income tax bracket and the time frame in which the funds will be needed, education savings can be placed in a savings account, certificate of deposit, U.S. Treasury securities or money market account, or invested in some combination of stocks and bonds, either directly or through mutual funds.

☐ **Grandparents:** Many grandparents want to help finance their grandchildren's college educations. Grandparents can fund Section 529 plans, either as the account owner or, if the plan allows, by making contributions directly to a Section 529 plan already established by the parents. Grandparents can also fund Education Savings Accounts, purchase U.S. savings bonds for qualified higher education expenses or simply set up a college savings account for the future benefit of their grandchildren. Another option grandparents can consider is to make annual gifts to college-age grandchildren.

College Savings Plan Ownership

If you maintain separate education accounts for each of your children, you must decide if those accounts will be held in the name of the child, a parent, or another adult. In making this decision, consider:

- the impact on your family's income taxes; and
- who you want to have control of the assets.

☐ **Income Tax Considerations:** There could be tax savings if the account is held in the child's name and income earned by the account is taxed to the child, who is generally in a lower tax bracket than the parents. There is, however, a catch...if the child is under age 19 (under age 24 if a dependent full-time student), the so-called "kiddie tax" applies. In 2024, the first $1,300 of unearned income (interest, dividends and capital gains) is tax free (due to the standard deduction for dependents) and the next $1,300 is taxed at the child's tax rate. Any additional unearned income over $2,600, however, is taxed at the parents' top rate. Once the child reaches age 19 (age 24 if a dependent full-time student), all unearned income is taxed at the child's rate, which currently could be as low as 10%.

☐ **Control Considerations:** If you are nervous about your child having control of the funds, there are alternatives that can produce tax savings while maintaining some control:

- **Minor's Trust:** Either a Section 2503(b) or Section 2503(c) trust can be established in order to maintain control of principal and income while the child is a minor. Both types of trusts qualify for the annual gift tax exclusion per donor ($18,000 in 2024). Trust income is taxable to the trust or, if distributed, to the minor. A minor's trust can, however, be expensive and time consuming to establish. Unless substantial gifts over a number of years are anticipated, the next alternative may be more attractive.
- **Custodial Account:** Depending on the state in which you reside, you can establish a custodial account under either the Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA). With a UGMA or UTMA account, the income is taxed to the child as described above in Income Tax Considerations, but only the custodian has control of the funds until the child reaches age 18 or 21 (depending on the state). The custodian can be a parent or any other adult. Gifts made to a custodial account qualify for the annual gift tax exclusion per donor ($18,000 in 2024).

NOTE: The potential impact on the availability of student loans and grants should also be considered in evaluating college savings plan ownership options. For example, the way the financial aid formula works, children are expected to contribute a much higher percentage of their assets toward paying college costs than are parents. As a result, if receiving student financial aid is an objective, you may want to avoid saving money in your child's name.

To what degree can you both save for your children's college education and still provide for your own retirement?

That's a question facing many parents today and, while there is no set answer, what follows may help you make some tough choices.

- ☐ Remember that there are no federally-guaranteed loans for retirement. Your children, on the other hand, have access to scholarships, grants and federally-guaranteed loans to help pay for their college educations. Your children may graduate from college with more debt than you or they would like, but that may be one of the trade-offs as you balance college and retirement savings.

- ☐ As you strike a balance between saving for college and your retirement savings, put the two financial needs in perspective. A four-year college education may cost anywhere from about $75,000 to $200,000. Your retirement may last at least five times as long and may require at least five times the savings in order to maintain your standard of living in retirement.

- ☐ Give serious thought to taking full advantage of any tax-favored retirement plans available to you, such as 401(k) plans, IRAs and tax-sheltered annuities, before funding college savings accounts. In addition to their tax advantages, these plans may offer matching employer contributions. As an added advantage, assets you own in retirement plans, together with life insurance and annuities, will not affect your child's ability to qualify for federal student aid.

- ☐ Remember that any money you withdraw from tax-favored retirement plans to fund a child's college education may have income tax implications and won't be there when needed for retirement. While you may be able to borrow from a 401(k) plan for college purposes, that loan will have to be repaid.

- ☐ To some degree, your answer to the college versus retirement issue may depend on the age at which you had children. If you had your children while in your twenties, you may have plenty of time to contribute toward their college educations and still fund your retirement nest egg. On the other hand, if you were in your late thirties or your forties, you'll be writing checks for college when your retirement isn't that far off.

- ☐ It's a natural inclination to put your children's needs first. Do you, however, want to pay for their college education only to risk becoming a burden to them in your retirement years?

College Budget Worksheet

When you create a budget, you create a money plan. Following a budget may not be easy, but it helps you get the most from the money you have available. Once you create your budget, don't spend money on items that are not included in your money plan…unless you are willing to substitute something else for it. Finally, remember that your budget isn't set in stone - adjust your money plan if it's not working for you.

Expenses – Periodic	**Per Semester Amount**	**Per School Year Amount**
Tuition	$ ________________	$ ________________
Books	$ ________________	$ ________________
Other ______________________	$ ________________	$ ________________
Other ______________________	$ ________________	$ ________________
Total Periodic Expenses	$ ________________	$ ________________

Income - Per School Year	**Per School Year Amount**
From Parents	$ ________________
From Savings/Investments	$ ________________
From Part-Time Work	$ ________________
From Student Loans	$ ________________
From Scholarships/Grants	$ ________________
Other ____	$ ________________
Total Per School Year Income	$ ________________
minus *Total Per School Year Periodic Expenses*	- ________________
equals *Net Per School Year Income*	$ ________________
divided *by # of Months in School Year*	÷ ________________
equals Net Monthly Income	$ ________________

College Budget Worksheet (continued)

Monthly Expenses

	Monthly Budget
Fixed Expenses:	
Room and Board (or rent and food)	$ ________________
Transportation (car payment, mass transit pass)	$ ________________
Insurance (health insurance, auto insurance)	$ ________________
Club/organization dues	$ ________________
Other: ________________________________	$ ________________
Other: ________________________________	$ ________________
Total Monthly Fixed Expenses	$ ________________
Variable Expenses:	
School Supplies	$ ________________
Utilities (gas, electric, water)	$ ________________
Telephone/Internet/Cable	$ ________________
Fuel/Parking/Tolls	$ ________________
Auto Repair/Maintenance	$ ________________
Laundry/Dry Cleaning	$ ________________
Meals and snacks	$ ________________
Clothing	$ ________________
Personal Grooming	$ ________________
Entertainment/Recreation	$ ________________
Other: ________________________________	$ ________________
Other: ________________________________	$ ________________
Total Monthly Variable Expenses	$ ________________
plus *Total Monthly Fixed Expenses*	+ ________________
equals *Total Monthly Expenses*	$ ________________

Monthly Cash Flow

Net Monthly Income (from previous page)	$ ________________
minus Total Monthly Expenses	- ________________
equals Net Monthly Cash Flow (+ or -)	$ ________________

Disclosure Information

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