# **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

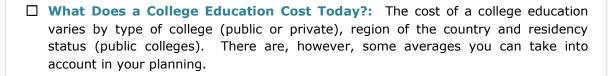
An investment in a child's college education has the potential to result in a lifetime of increased earnings.

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:

Ш	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.
	<b>Borrow:</b> 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.
	<b>Financial Aid:</b> 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.
	<b>College Savings:</b> 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.





# 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

<sup>\*</sup> Includes tuition, fees, room and board; in-state residency is assumed for public schools.

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).

<sup>\*\*</sup> Includes tuition and fees only.

### 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 4year 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

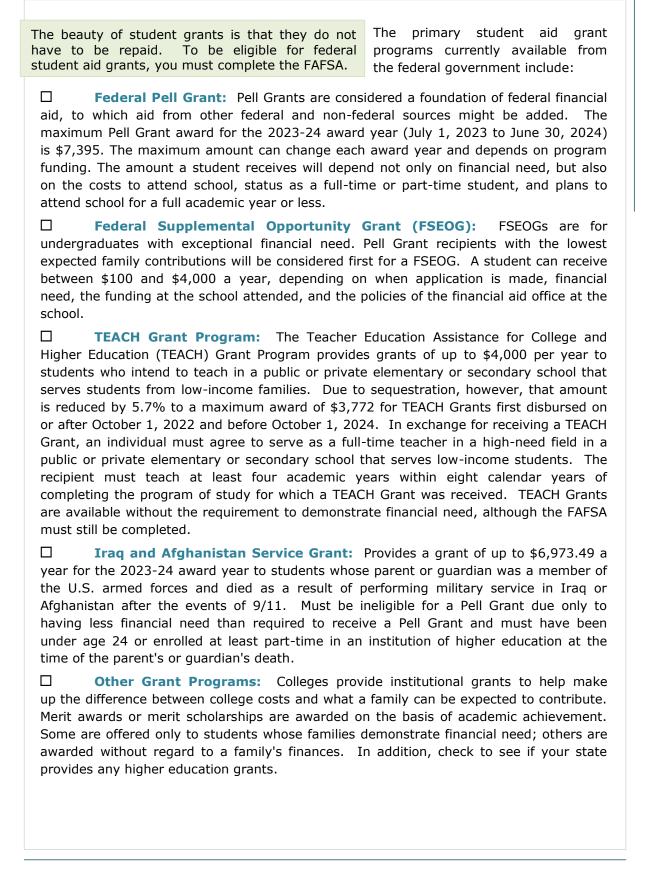
Financial aid is money made available to students to help pay their college costs. Financial aid can be in the form of grants and scholarships, which do not have to be repaid, in the form of loans, which do have to be repaid, or in the form of a work-study program, which requires the student to work 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 applicationcheck 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/applyfor-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



## 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.	year; 2023-24 award year (July 1, 2023 to June 30, 2024) All eligible students
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.	
Teacher Education Assistance for College and Higher Education (TEACH) Grant	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 eigh	
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.	year; 2022-23 award year (Oct. 1, 2023 to

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



# 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.

## Student Loans (continued)

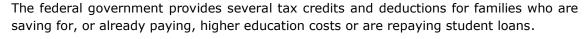
Federal Loan Program	Eligibility	Award Amounts	Interest Rates	Lender/Length of Repayment
Direct Subsidized Loans	Undergraduate students; must be enrolled at least half-time	Depends on grade level in school and dependency status  Financial need is required for subsidized loans; government pays interest 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



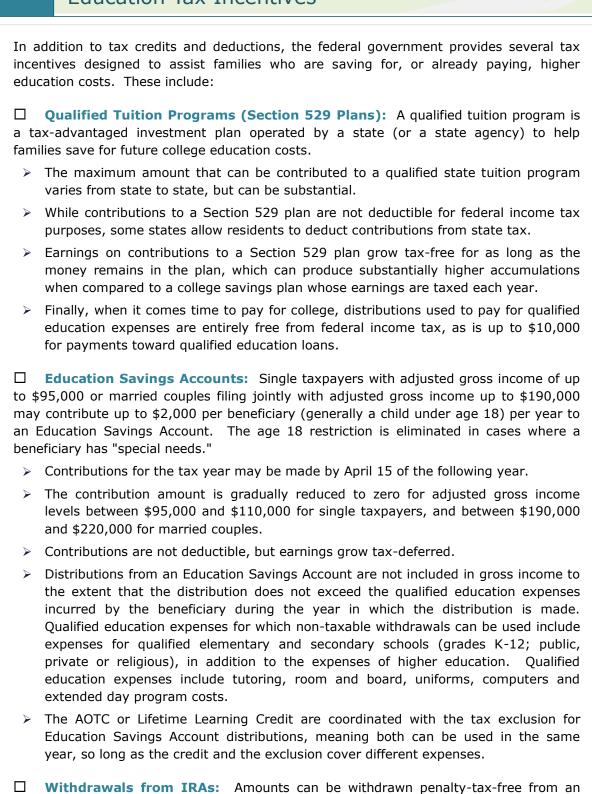
#### **Education Tax Credits and Deductions**



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**



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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	Estimated cost of four years of college <sup>(1)</sup> :		Level monthly deposits which will equal the college fund needed, assuming a 7% growth rate <sup>(2)</sup> :	
begins college in:	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

<sup>(1)</sup> 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.

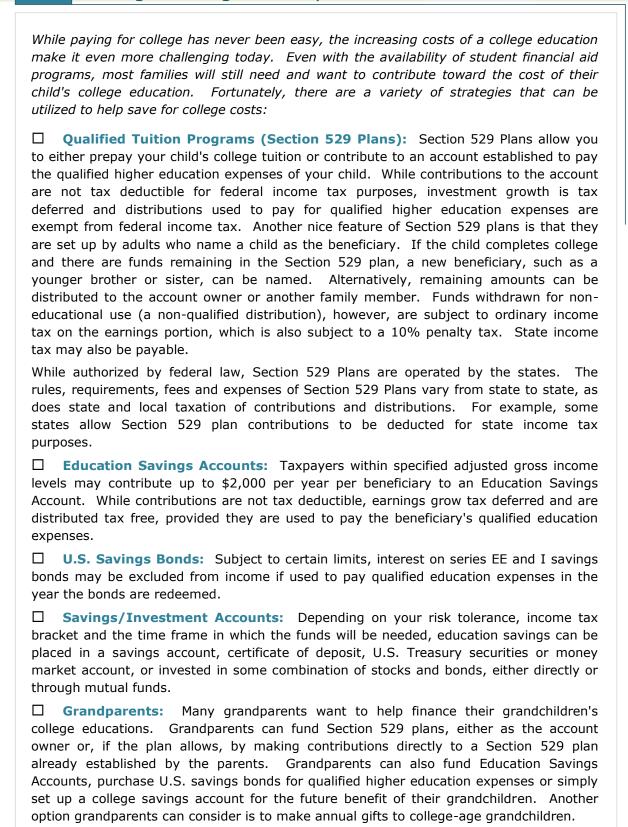
Since many families are not in a position to fully fund a child's college education from savings, you need to set a college savings goal by understanding the college financial aid options available, deciding how much of the college expenses you will pay from current income and then determining what amount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

<sup>(2)</sup> 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.

### College Savings Plan Options



### 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.

## College versus Retirement

# 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	Per School Year
	Amount	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 Periodi	ic Expenses	
equals Net Per School Year Income		\$
divided by # of Months in School Y	ear	÷
equals Net Monthly Income		\$



### **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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