



# College Planning

## Saving for a College Education



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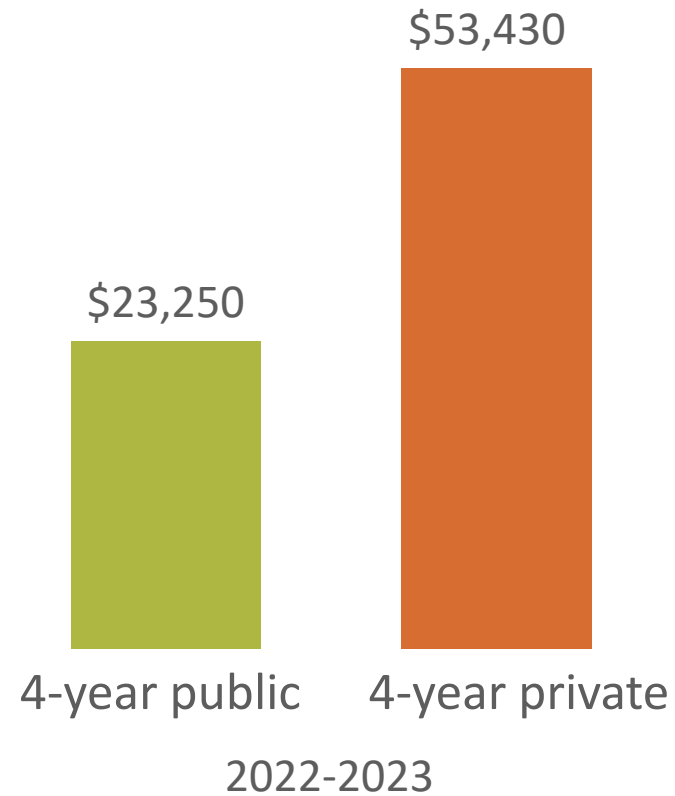
# Saving for College

## Fitting College Savings into Your Budget



# Saving for College

## The Cost of College Now

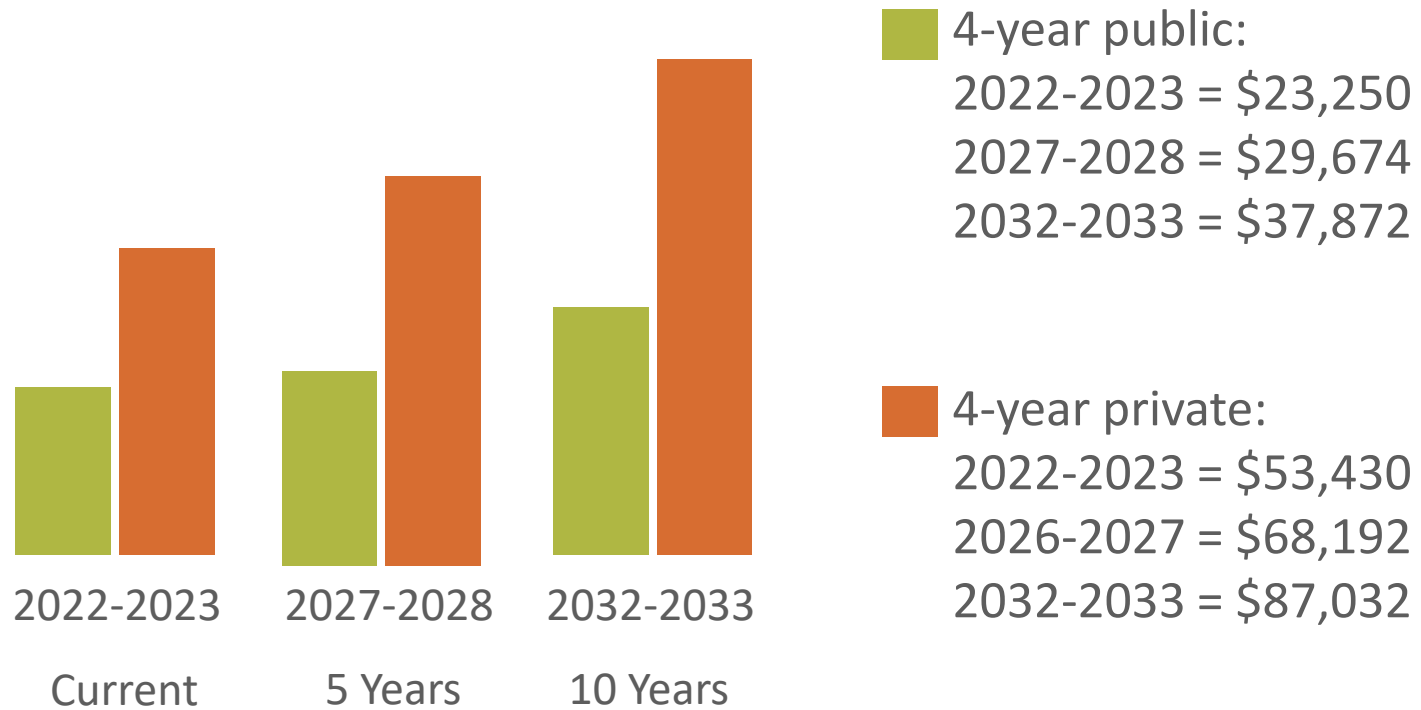


Cost figures include direct billed costs of tuition, fees, room, and board.

Source: College Board, Trends in College Pricing and Student Aid 2022

# Saving for College

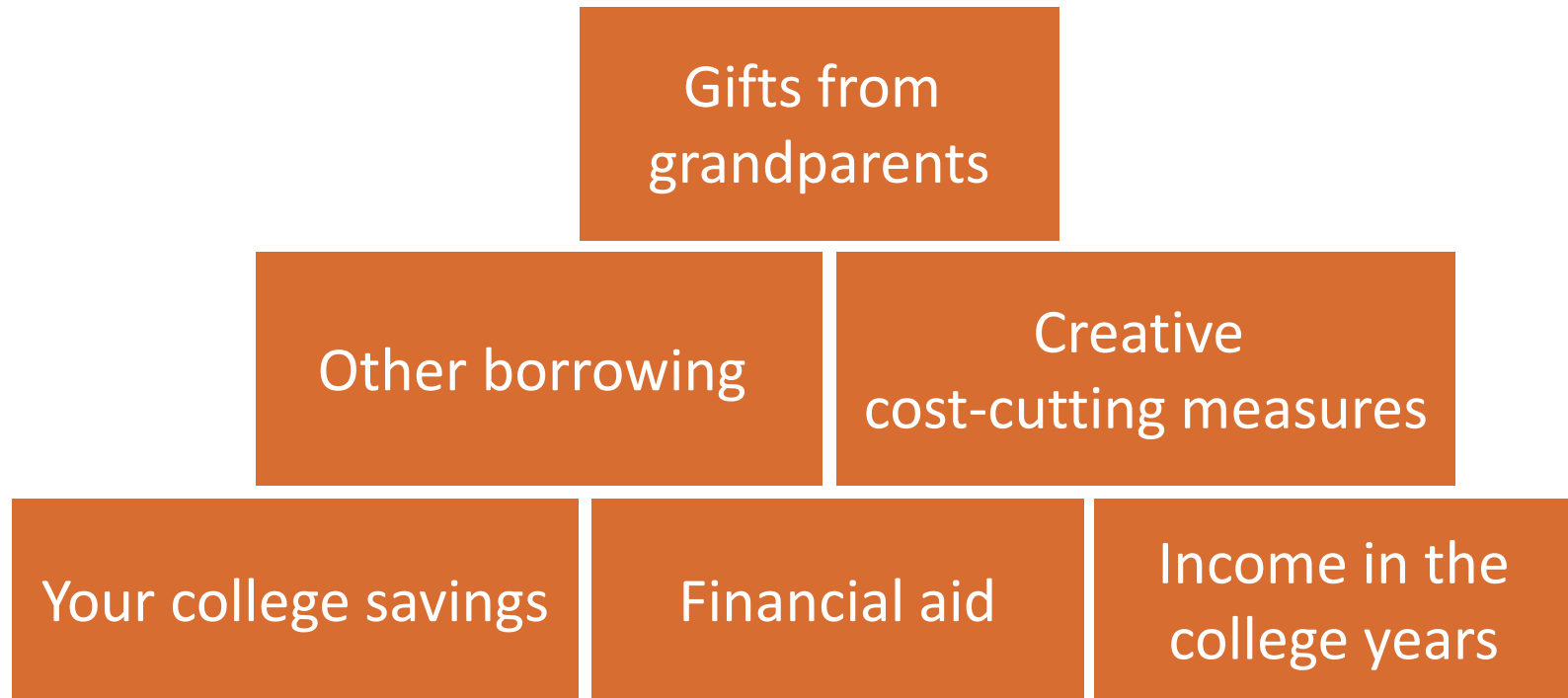
## The Future Cost of College



Projected costs based on annual 5% college inflation rate

# Saving for College

## How Are You Going to Pay?



# Setting a Savings Goal

Monthly Investment	5 years	10 years	15 years
\$100	\$6,977	\$16,388	\$29,082
\$300	\$20,931	\$49,164	\$87,246
\$500	\$34,885	\$81,940	\$145,409

Figures are based on a 6% average annual after-tax return. This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. Fees and expenses are not considered and would reduce the performance shown if they were included. Actual results will vary. This illustration assumes a fixed annual rate of return, but rates of return will vary over time, particularly for long-term investments.



# College Savings Options

- 529 plans\*
- Coverdell Education Savings Accounts\*
- Mutual funds, stocks, ETFs
- Savings accounts
- Money market funds
- CDs
- Roth IRAs\*

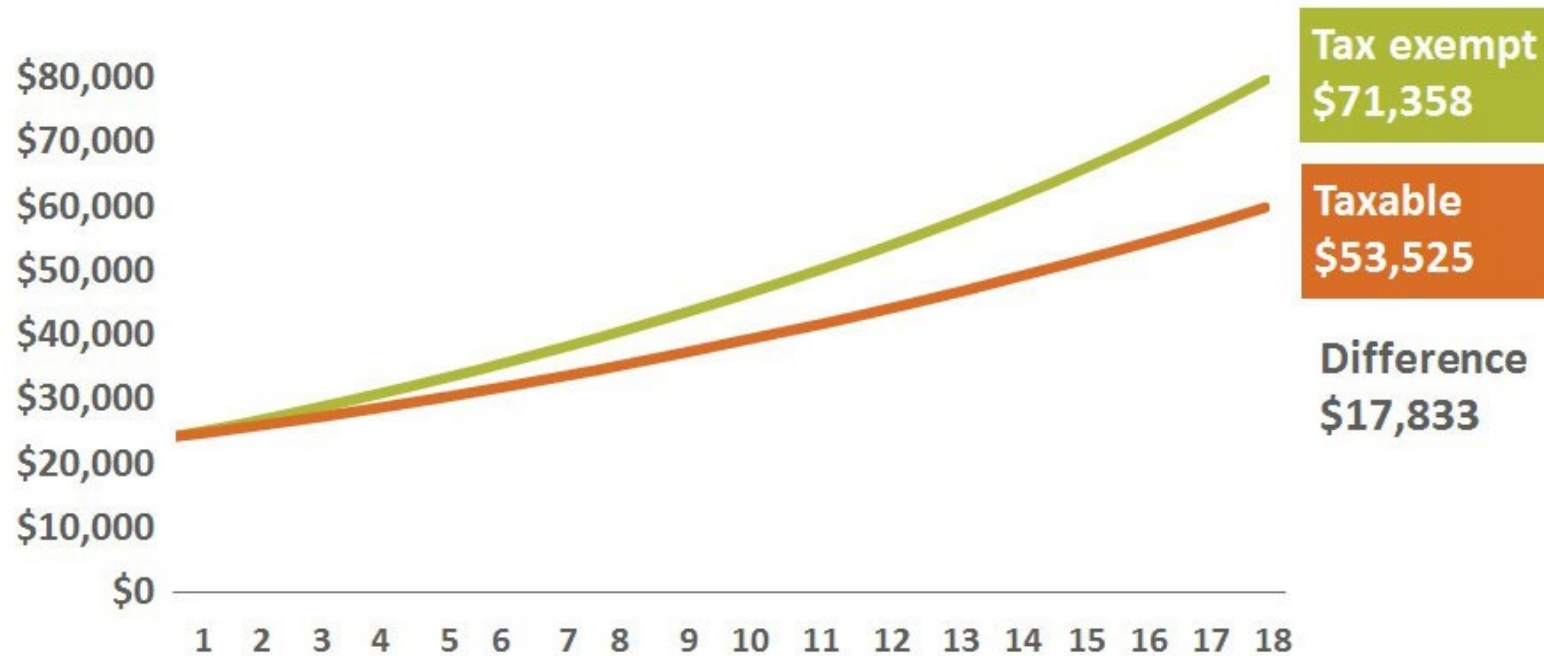
\* Tax-advantaged accounts





# College Savings Options

## Taxable vs. Tax-Free



Figures are based on a \$25,000 initial investment and assume a 6% average annual return and a total combined federal and state tax rate of 28%. This is a hypothetical example and is not intended to reflect the actual performance of any specific investment, nor is it a guarantee of future value. The lower maximum tax rates on capital gains and qualified dividends, as well as the tax treatment of investment losses, would make the taxable investment more favorable than is shown on this chart.

# College Savings Options - 529 Plans

**Q.** What is a 529 plan?

**A.** A 529 plan is a tax-advantaged college savings vehicle

529 plans are sponsored by states, but must adhere to federal law

Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. The tax implications of a 529 plan should be discussed with your legal and/or tax professionals. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. Other state benefits may include financial aid, scholarship funds, and protection from creditors.



# College Savings Options - 529 Plans

College savings plan	Prepaid tuition plan
Individual investment-type account; your contributions go into plan's pre-established investment portfolios that you select; returns aren't guaranteed	Contract between you and the plan whereby your contribution today covers a certain amount of in-state public college tuition in the future
Offered by nearly all states; you can join any state's plan	Only a few states offer them; you are limited to your own state's plan
Funds can be used for tuition, fees, room and board, books, and supplies at any accredited college in U.S. or abroad	Generally covers in-state tuition at public colleges only (exception: one private college prepaid plan in its existence)

# College Savings Options - 529 Plans

## Advantages

- Anyone can open an account
- High lifetime contribution limits
- You control the account funds
- Age-based portfolios
- Tax benefits
  - Tax-deferred accumulation
  - Tax-free earnings

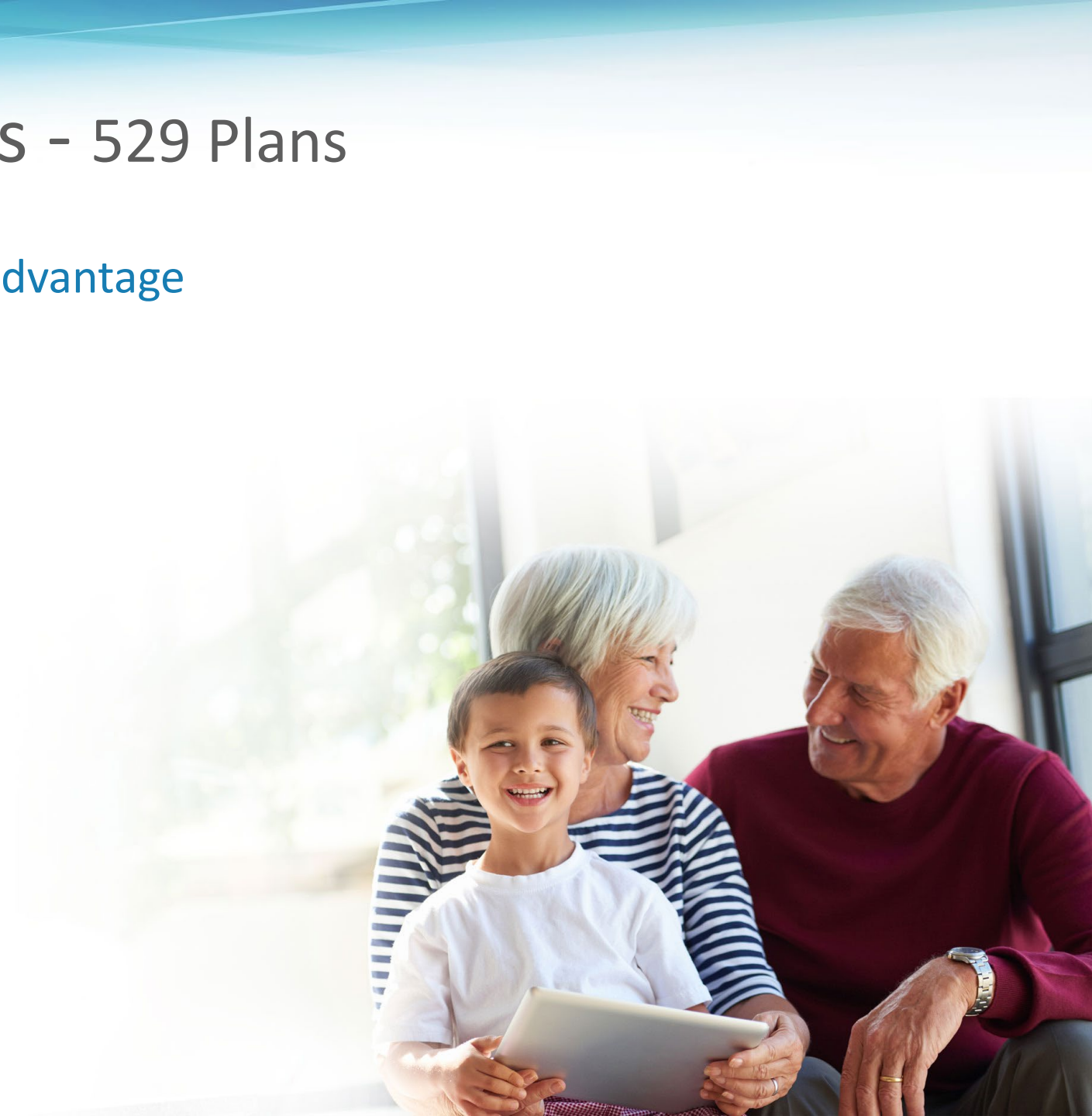




# College Savings Options - 529 Plans

## Accelerated gifting – Estate planning advantage

- \$85,000 (individual) or \$170,000 (couple) lump-sum gift
- No gift tax owed if certain conditions are met



# College Savings Options - 529 Plans

## Limitations

- Returns aren't guaranteed
- Limited to plan's investment portfolios
- Can change investment options on existing contributions only twice per year
- Withdrawals not used for qualified education expenses are subject to income tax and penalty
- Fees and expenses





# College Savings Options

## Coverdell ESAs

- \$2,000 maximum annual contribution
- For elementary, secondary, or college expenses
- You select investments
- Tax-free earnings
- Earnings portion of withdrawal used for non-educational purpose subject to income tax and 10% penalty
- Eligibility based on income



# College Savings Options

## Roth IRAs

- Retirement savings vehicle
- Parents younger than 59½ won't owe 10% early distribution penalty if money is used for college
- Retirement accounts not counted as asset in financial aid formulas
- Maximum annual contribution \$6,500 (additional "catch-up" contributions are allowed if age 50 or older)
- Ability to contribute depends on income
- Retirement funds will be reduced

Generally, nonqualified withdrawals of earnings from Roth IRAs will be subject to regular income taxes (and a 10% early distribution penalty unless an exception applies). Qualified withdrawals may occur after the account has been held for at least five years, and the account holder reaches age 59½, dies, or becomes disabled.

# College Savings Options

## Mutual Funds & Stocks

- Offer variety and flexibility
- No tax advantages specific to education
- \$25,000 investment averaging 6% return per year for 18 years = \$53,525 in taxable mutual fund (combined federal & state tax rate of 28%) and \$71,358 in a tax-free 529 plan – difference of \$17,833

Mutual fund investing involves risk and possible loss of principal. Investors should consider the investment objectives, risks, charges, and expenses of mutual funds carefully before investing. The prospectus contains this and other information, and should be read carefully before investing.



# College Savings Options

## Which Options Are Right for You?

	529 plans	Coverdell ESAs	Roth IRAs	Mutual funds & stocks
Open to anyone	✓			✓
High or no contribution limit	✓			✓
Full investment control		✓	✓	✓
Tax-free earnings	✓	✓	✓	
Flexibility – no penalty if funds not used for college			✓	✓
Not counted for financial aid purposes			✓	



# College Savings Options

## Hypothetical Family

- Heather and Joe, 43 years old
- Two children, 7 and 4
- Combined income of \$160,000
- \$30,000 windfall
- Would like to make monthly contributions to a college fund



# College Savings Options

## Hypothetical Family

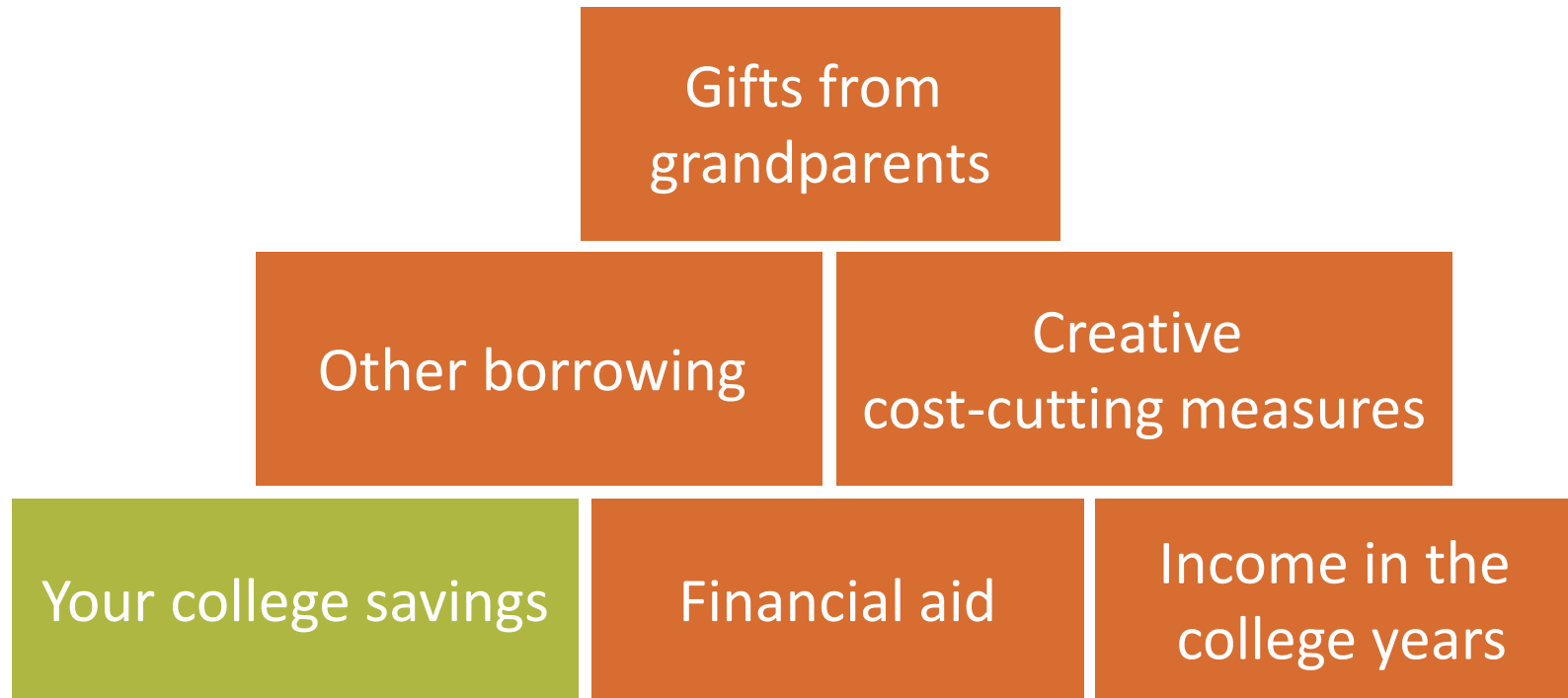
- ✓ 529 plan: automatic monthly contributions
- ✓ Coverdell ESA: meet income limits, buy stocks
- ✓ Roth IRA: meet income limits
- ? Mutual funds & stocks





# Saving for College

## How Are You Going to Pay?



# Financial Aid

## What Is Financial Aid?

- Loans
- Grants
- Scholarships
- Work-study



# Financial Aid

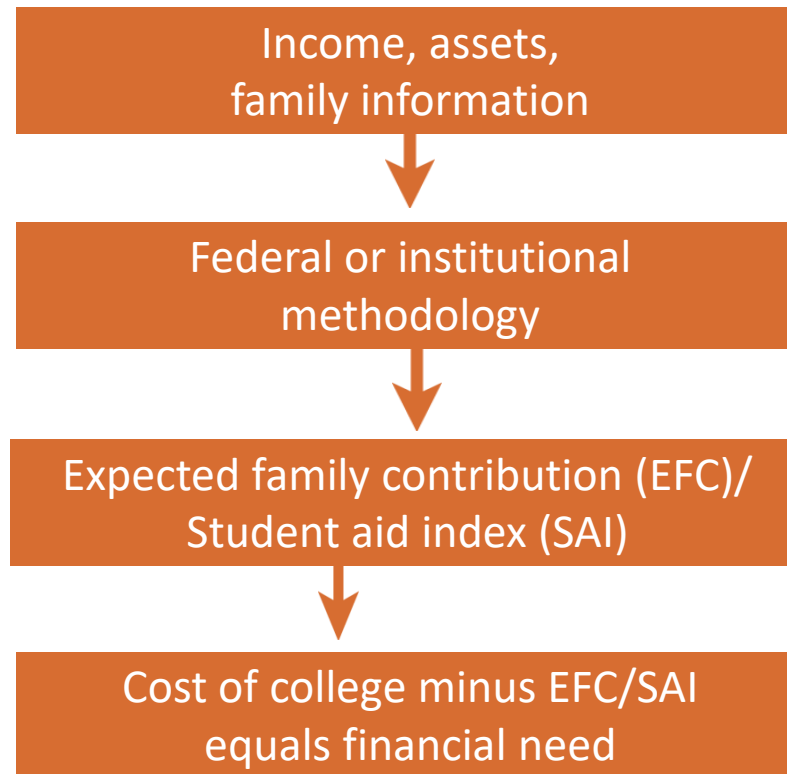
## Using a Net Price Calculator

- Federal grants – based on financial need only
- College grants – based on financial need and merit
- Net price calculators



# Financial Aid

## How Is Financial Need Determined?





# Financial Aid

## Assets Excluded from Consideration

- Home equity
- All retirement accounts
- Annuities
- Cash value life insurance



# Financial Aid Loans

- Federal student loans - Direct Loans
- Parent loans – PLUS Loans
- Private student loans
- Beware excessive loans!





# Financial Aid

## How Much Should You Rely on Aid?

- Don't rely too heavily on financial aid
- All aid isn't created equal
- Focus on your savings



# Saving for College and Retirement

It's a balancing act, but you should save for retirement now, too, because...

- There are no loans, grants, or scholarships for retirement
- Miss out on years of tax-deferred growth; hard to catch up later
- Allocate some funds for retirement and some for college
- Err on the side of saving for retirement



# Thank You



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