

# Planning for College



**BEFORE  
COLLEGE**



## Establish a Savings Vehicle

It is never too early to start saving for college. Below is a comparison of some of the savings vehicle options available:

| YEAR 2024 RULES  | 529 PLAN   | COVERDELL PLAN  | UNIFORM TRANSFER TO MINORS ACT (UTMA)   |
|--|--|---|---|
| <b>Max Contribution</b>  | Varies among states - generally, states accept contributions until account balance reaches anywhere between \$235,000 and \$550,000.   | \$2,000 per year (maximum per beneficiary).   | No restrictions (but be mindful of annual gifting limits).  |
| <b>Taxation</b>  | Earnings generally not subject to federal and state tax when used for qualified expenses. Withdrawals are generally tax free to the extent that the amount of the withdrawal is not more than the beneficiary's qualified education expenses. Consult your tax advisor to determine if contributions are eligible for a tax deduction or credit. | Earnings are generally not subject to federal and state tax when used for qualified expenses. Contributions are not deductible. Withdrawals are generally tax free to the extent that the amount of the withdrawal is not more than the beneficiary's qualified education expenses. | Earnings and gains are taxed to minor; first \$1,100 of unearned income is tax exempt, unearned income over \$2,200 for certain children through age 23 is taxed at the parents' marginal tax rate. |
| <b>Qualified Expenses</b>  | Tuition, books, supplies, equipment, special needs, room and board for minimum half-time students.   | Tuition, fees, books, supplies, equipment for both elementary and secondary schools, as well as college and post secondary institutions.  | No restrictions, if used for the benefit of the child.  |
| <b>Able to Change Beneficiary</b>                                      | Yes, to another member of the beneficiary's family.  | Yes, to another member of the beneficiary's family.   | No, this account represents an irrevocable gift to the child.   |
| <b>Time/Age Restrictions</b>   | No, unless imposed by the specific plan.   | Can establish for child under the age of 18, and assets must be withdrawn before beneficiary reaches age 30 (does not apply to beneficiaries with special needs).   | Custodianship terminates when minor reaches the age established under state law (18 or 21), and minor must be given full access to the account.   |
| <b>Income Restrictions</b>   | None.  | For 2024: if your MAGI is less than \$95,000 for single filers (\$190,000 for joint filers), you can make the full contribution. A partial contribution is allowed for single filers with MAGI between \$95,000 and \$110,000 (joint filers between \$190,000 and \$220,000).       | None.   |
| <b>Federal Financial Aid Treatment (Assuming Parent-Owned Account)</b> | The assets in the account are assessed at a maximum 5.64% rate in determining the student's Expected Family Contribution (EFC).  | The assets in the account are assessed at a maximum 5.64% rate in determining the students EFC.   | Classified as the student's asset.  |
| <b>Use of Non-Qualifying Distributions</b>                             | Earnings portion included in gross income and subject to 10% penalty.  | Earnings portion included in gross income and subject to 10% penalty.   | Funds must be for the benefit of the minor.   |

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## BEFORE COLLEGE



- Another savings vehicle could be through a traditional savings or money market account which allows you to earn interest on the money that you deposit (a nominal amount given the current interest rate environment). These accounts also provide a safe and easy way to access your cash. There are typically no penalties for withdrawals from the account.

## SELECTING A COLLEGE



There are a number of factors to consider when deciding which school is the right fit. Below are examples of important factors:

- **Enrollment Size:** How large are the class sizes?
- **Location:** Is the school located near your home or out of state? Is the school close enough to drive to?
- **Degree Programs:** Does the school have majors of interest? Is the school ranked highly for that major? What are the job placement rates for that degree?
- **Study Abroad:** Are there opportunities to study abroad, if desired?
- **Reciprocity:** Does the state or school offer tuition exchange or reciprocity programs?
- **Extracurricular Activities:** Does the school offer clubs and organizations of interest?
- **Tuition:** The cost of tuition can vary greatly depending on the type of institution (as referenced below). In addition, the cost of tuition continues to increase.

| COLLEGE TYPE                             | AVERAGE ANNUAL COST  |
|--|--|
|  | (Includes Tuition & Fees, Room & Board, and Misc. Personal Expenses) |
| Four Year Public Colleges (In-State)     | \$26,027   |
| Four Year Public Colleges (Out-Of-State) | \$40,550   |
| Four Year Private Colleges               | \$54,840   |

\*The College Board's Trends in Higher Education for 2023-2024 School Year

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## FINANCING COLLEGE



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### Apply for Financial Aid

Financial aid is money given out by colleges and federal/state governments to help students pay for school.

- Make sure you complete the FAFSA (Free Application for Federal Student Aid):
  - Under FAFSA, your income and assets and your child's income and assets are run through a formula. The result is a figure known as your Expected Family Contribution (EFC). This is the amount of money you'll be expected to contribute to college costs before you are eligible for aid.
  - For the 2024-2025 academic year, families will be able to file their FAFSA as early as December 31, 2023. There is a two-year look back on tax returns meaning you will utilize your 2022 tax return for the 2024-2025 FAFSA.
  - To calculate your financial need, subtract your EFC from the cost at a given college. Because costs are different at each college, financial need will vary depending on each particular school.
  - Tip: Colleges will not necessarily meet 100% of a financial need. It is up to each school to distribute financial aid as it sees fit.
- You can submit a free FAFSA application at <https://fafsa.ed.gov/>.
- You must complete the FAFSA every year. If your child plans to attend college during the 2024-2025 school year, you must submit your online application by June 30, 2024 (this is the federal deadline; college deadlines vary and may be earlier).
- Tip: If you plan to apply for student aid from programs administered by the college or state, you should still fill out the FAFSA as most college and state programs require that you apply for federal funding also.
- For additional information, including state application deadlines and details on EFC formula, visit the FAFSA website at <https://fafsa.ed.gov/>.
- You can use the FAFSA's forecasting tool (<https://studentaid.ed.gov/sa/fafsa/estimate>) before your child's high school senior year so you can know what to expect before application season begins.
- Note: Changes to the FAFSA form went into effect in December 2023 for the 2024-2025 academic year. For additional information on the changes that went into effect, please contact your JNBA advisory team or visit <https://studentaid.gov/articles/fafsa-changes-coming/> for more information.

### Search for Scholarships

- Scholarships are a type of financial aid that do not have to be repaid. These may be given out by the federal government, state governments, colleges, and a variety of private organizations based on different factors such as merit, need, diversity, interests, cultural background, or academics.
- Tip: Fill out the FAFSA before applying for scholarships. A large number of scholarships available are financial need-based.

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## FINANCING COLLEGE



### Student Loans

- Student loans are a form of financial aid designed to help students pay for tuition and other expenses related to their education. There are two types of student loans:
  - Federal Student Loans: Established by the federal government. Offer fixed interest rates that are typically lower than private student loans. Currently, there are three main federal student loans available: Stafford Loan, Perkins Loan, and PLUS Loan.
  - Private Student Loans: Offered by credit unions, state agency, or banks.

The table on the following page shows a comparison of the different types of federal student loans available.

### Federal Student Loans Comparison

|  | DIRECT SUBSIDIZED LOAN  | DIRECT UNSUBSIDIZED LOAN  | DIRECT PLUS LOAN   |
|--|---|---|--|
| <b>Type</b>  | Subsidized  | Unsubsidized  | Unsubsidized   |
| <b>Description</b>   | Low-interest  | Low-interest  | Higher-interest  |
| <b>Available To</b>  | Undergraduates enrolled at least half-time with a certain level of financial need.            | Undergraduates and graduate students that are enrolled at least half-time.                    | Parents and graduate/professional students with good credit histories.                           |
| <b>Interest Rates</b><br>For loans on or after July 1, 2023, and before July 1, 2024 | 5.50% for undergraduate students  | 5.50% for undergraduate and 7.05% for graduate students.                                      | 8.05% for both parents and graduate students.  |
| <b>Borrowing Limits</b>  | Annual limits depend on whether a student is dependent or independent and undergrad/graduate. | Annual limits depend on whether a student is dependent or independent and undergrad/graduate. | Full cost of education, less financial aid received.   |
| <b>Other Information</b>   | Must qualify for need though FAFSA.   | Must qualify for need though FAFSA.   | Not based on financial need, borrowers of all income levels can receive. Must pass credit check. |

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# Planning for College

## AFTER COLLEGE



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### Paying off Student Loans

- Student loan debt may impact decisions to buy a car, home, or to have children after college. Therefore, it is important to know how to manage student loan debt.
- There is generally a grace period built into most student loans which means you will likely have six to nine months after graduation before you need to begin to make payments.
- You and your lender will select a repayment plan that is right for you and acceptable to them.

### Loan Forgiveness

- Public Service Loan Forgiveness (PSLF)
  - This program is intended to encourage individuals to work full-time (30+ hours a week) in public service jobs. In order to qualify, your loan must be through the William D. Ford Federal Direct Loan Program. After you make 120 qualifying payments (over a 10-year period), while employed full-time by certain public service employers, you will be eligible for loan forgiveness.
  - Loans that are eligible for forgiveness:
    - Federal Direct Subsidized Loans
    - Federal Direct Unsubsidized Loans
    - Federal Direct PLUS Loans (Parent PLUS Loans must be consolidated first)
    - Federal Direct Consolidation Loans
    - Note: You may not be eligible for loan forgiveness if you have defaulted on your loan(s), but you may become eligible by consolidating.
  - The 120 monthly payments must be made under one or more of the following Direct Loan Repayment plans:
    - Income-Based Repayment Plan (IBR)
    - Pay as You Earn Plan (PAYE)
    - Revised Pay as You Earn Plan (REPAYE)
    - Income Contingent Repayment Plan (ICR)
    - Other Direct Loan Program Repayment Plans

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- Under the PSLF program, the borrower must be employed full-time by a public service organization, or must be serving in a full-time AmeriCorps or Peace Corps position and employment must be recertified annually. Qualifying organizations are listed below:
  - Nonprofit, tax exempt organization under section 501(c)(3) of the IRS code
  - Emergency management
  - Military service
  - Public safety
  - Law enforcement
  - Public interest law services
  - Early childhood education
  - Public service for individuals with disabilities and the elderly
  - Public health
  - Public education
  - Public/school library services
- Visit <https://studentaid.ed.gov/> for additional information.

### Other Repayment Plans:

- Standard Repayment Plans: Generally pay a fixed amount each month for up to 10 years.
- Graduated Repayment Plans: Payments start out low and increase over time, up to 10 years.
- Extended Repayment Plans: Extend the time you must repay, up to 30 years.
- Income-Based Repayment Plans: Payments are based on your annual discretionary income. After 25 years of on-time payments, your remaining balance may be forgiven. (Open to graduates with a Stafford Loan, PLUS Loan, or Direct Consolidation Loan). Keep in mind that the forgiven balance may be taxable.
- Loan Consolidation: Combine several loans into one loan with a lower monthly payment.

### The Student Loan Interest Deduction

- You may be able to deduct up to \$2,500 each year of the interest you pay on qualified student loans, provided you meet the income limits. For the 2023 tax year (the return you'll file in 2024):
  - If you are a single filer with MAGI under \$90,000 or a joint filer with MAGI under \$185,000, you may be able to deduct the full \$2,500 of student loan interest.
  - A partial deduction may be available to single filers with MAGI between \$75,000 and \$90,000 and joint filers with MAGI between \$155,000 and \$185,000.
- Confirm the above with your CPA or qualified tax advisor.

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## REFERENCES

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If you would like additional information on savings plans, financial aid, or scholarships, the following websites may be helpful:

- [www.savingforcollege.com](http://www.savingforcollege.com)
- [fafsa.ed.gov](http://fafsa.ed.gov)
- [www.finaid.org](http://www.finaid.org)
- [studentaid.gov](http://studentaid.gov)

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