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**Planning and Paying for College: Investing in Education**

Paying for college can seem like a magic act. Between tuition, room and board, books, transportation, technology fees, and countless other expenses, covering them all is a daunting task. Despite this challenge, you do not have to be a magician to fund an education. Diligent preparation coupled with a careful examination of the variety of payment strategies available to you is the key to affording higher education. Throughout this process, remember that college is not just a series of expenses, it is a valuable investment in your or your child’s future.

**Preparing to Pay**

Preparing to pay for college is important for everyone, but it is particularly vital that parents planning to fund their children’s education have given them feasible expectations and sound financial reasoning capabilities. This begins long before your child’s first day on campus and must continue until college is behind them and fully funded.

* **Instill financial literacy in your children.** Make sure that they understand the basics of the financial system, especially as it pertains to paying for college.
  + Explain to them how loans work, and how borrowed money must be paid back with interest. Deter them from accumulating compounding debt.
  + Tell them the benefits of accounts that make money by investing, such as IRAs and 401(k)s.
  + Be an example of saving early and often. Show your children the value of financial responsibility.
* **Give your children practical expectations.** The cost of higher education is increasing faster than the inflation rate. By 2033, a private four-year college is expected to cost about $323,000 per year. Be frank with your kids about how much you can contribute to their education. They need to know if they should consider private education or tether their expectations. They also need to know that a higher price tag does not necessarily correspond to better education. As much as you want to give them access to the “best” college, do not forget that you will want to retire one day. It is better to spend conservatively to send them to college than spend beyond your means and saddle them with your living expenses later in life.
* **Explore financial aid early in the college search.** Ordinarily, the college search begins for high schoolers during their junior year. Have your child complete this checklist at that point:

**Junior Year Checklist**

* + **Select colleges that you are interested in.** Think about location, financial feasibility, academic programs, and general fit.
  + **Look for financial aid opportunities with your high school counselor.** Share your goals and expectations with them.
  + **Find financial aid information at each of your selected colleges.** Research different opportunities and gather application details.
  + **Collect information and document expenses for completing financial aid forms.** You will need your Social Security number, tax returns, bank statements, any record of income, and any other information pertinent to your family’s financial situation.
* **Continue seeking financial aid even as the college search winds down.** Have your child complete this checklist before or at the beginning of their senior year:

**Senior Year Checklist**

* + **Obtain all appropriate financial aid forms from each of your selected colleges and complete the FAF, FAFSA, or FFS.** Each college will identify which of these is required.
  + **Pay attention to deadlines.** Complete and submit all required forms before the deadlines.
  + **Track your submit dates.** If you have not received a response from a college within eight weeks, do not hesitate to reach out to ensure that your application is in order.
  + **Stay in touch with the financial aid office during the application process.** Make yourself available should the office contact you.
* **Calculate your required monthly**

**investment.** This is the amount that you

**Calculating Required Monthly Investment**

must invest to ensure that you will be able

to afford sending your child to school. The

earlier you start investing, the easier it will

|  |  |  |
| --- | --- | --- |
| (1) | Total Amount Needed | \_\_\_\_\_­­­­­\_\_\_\_­­­­\_ |
| (2) | Number of Years Until College Begins +2 Years | \_\_\_\_\_­­­­­\_\_\_\_­­­­\_ |
| (3) | Return Target for Investment (%) | \_\_\_\_\_­­­­­\_\_\_\_­­­­\_ |
| (4) | Assets Currently Earmarked for Education | \_\_\_\_\_­­­­­\_\_\_\_­­­­\_ |
| (5) | Future Value of Currently Earmarked Assets *(using FV of $1 table value x line 4)* | \_\_\_\_\_­­­­­\_\_\_\_­­­­\_ |
| (6) | Additional Dollars Required *(line 1 – line 5)* | \_\_\_\_\_­­­­­\_\_\_\_­­­­\_ |
| (7) | Annual Investment Required *(line 6 / FV of an annuity table)* | \_\_\_\_\_­­­­­\_\_\_\_­­­­\_ |
| (8) | **Monthly Investment Required *(line 7 / 12)*** | \_\_\_\_\_­­­­­\_\_\_\_­­­­\_ |

be to pay for college.

* + To find the total amount needed

(line 1), use a projected average

college costs per year table. Use the

annual cost in the year that your

child will begin college and add the

subsequent years that you expect

them to attend.

* + This process required the use of both

a future value of $1 table and a

future value of an annuity table.

* + If you have multiple children that

you expect to attend college, this

process must be repeated for each of

them, as college costs change every

year.

* **Create a budget.** Having a plan to stick to will make saving and investing easier.

**Paying for College**

Once you have prepared yourself to pay for college, you must select the payment method that works best for you. The method that you choose will be largely dependent on whether you are paying for yourself or your children. Explore each of the following options, making note of which ones appeal to you.

**529 Plan**

* **529 Plan.** This is a college savings plan offering tax

and financial aid benefits. You can think of this plan

|  |  |
| --- | --- |
| Pros: | Cons: |

Would you use a 529 Plan?

**Yes No**

as a Roth IRA for college, as it offers **tax-free**

earnings growth and withdrawals when used for

qualified post-secondary education expenses.

* + It can be used at **any college** nationwide,

and up to **$10,000** can be used on

non-college tuition and fees.

* + Qualified expenses include **tuition and fees,**

**books and materials, room and board,**

**computers and related equipment, and internet access**.

* + **Unused funds** when the beneficiary graduates? The balance minus income tax plus a penalty for a non-qualified withdrawal can be withdrawn.
  + Each state has its own 529 plan, but **you can invest in any state’s plan**, not just your own. Research which plan would work best for your family.
  + **529 plans allow you to pay what you want when you want.**
* **Coverdell Education Savings Account**. This

**Coverdell ESA**

college savings account is like a 529 plan in that

|  |  |
| --- | --- |
| Pros: | Cons: |

Would you use a Coverdell ESA?

**Yes No**

distributions are tax-free at the time of withdrawal.

* + It can go towards **primary, secondary, and**

**post-secondary education expenses,** which

is useful if the beneficiary plans to attend a

private high school.

* + It is subject to **more restrictions** than a 529

plan, such as income level restrictions.

* + There is a **maximum annual contribution**

much lower than the limit for 529 plans, and if this threshold is breached the beneficiary is responsible for paying a **penalty tax**.

**529 Plan vs. Coverdell ESA**

Because 529 plans and Coverdell ESAs are similar in so many ways, understanding what makes them different can be challenging. This chart provides a concise summary of your options:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Any College | Income Restrictions | Maximum Contribution | Non-College Tuition | Non-College Expenses | Investment Selection |
| 529 plan | **✓** |  | **✓** | **✓** |  |  |
| Coverdell ESA | **✓** | **✓** | **✓** | **✓** | **✓** | **✓** |

* **Tax Credits.** The American Opportunity Tax Credit

**Tax Credits Phased Out**

|  |  |
| --- | --- |
| **American Opportunity**  *Single filers: between $80,000 and $90,000*  *Joint filers: between $160,000 and* $*180,000* | **Lifetime Learning**  *Single filers: between $56,000 and $112,000*  *Joint filers: between $110,000 and* $*130,000* |

Are you eligible for either of these credits? **Yes No**

and the Lifetime Learning Credit are the primary

credits that taxpayers can claim for education

expenses. **Both are phased out above certain**

**incomes, and they are mutually exclusive**.

* + **American Opportunity** allows a parent to

claim a percentage of a dependent child’s

college tuition and related expenses for an

annual $2,500 maximum credit per child.

* + **Lifetime Learning**, which has fewer

restrictions, allows a taxpayer to claim up to

$2,000 in tuition and fees for themselves, their spouse, or their dependent children.

**Saving Bonds Benefits Phased Out**

*Single filers: between $78,150 and $93,150*

*Joint filers: between $117,250 and $147,250*

Are you eligible for this exclusion?

**Yes No**

* **Savings Bonds.** EE and I bonds purchased after

1989 by someone at least 24 years old can be

redeemed **tax-free** when owners, their spouses, or

dependents pay for college tuition and fees.

However, **this tax exclusion is phased out at**

**certain income levels**.

* **Loans**. There are many different types of student loans available, and each should be thoughtfully considered before you commit to creating debt for yourself. If you decide to take on debt, be sure that you are only borrowing what you really need.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Interest Rate | Need Consideration | Borrowing Limits | Borrower |
| **Federal Loans\*** | Fixed | Varies | Varies | Varies |
| Direct Subsidized | Payments deferred | Yes | Up to $57,500 total\*\* | Undergraduate student |
| Direct Unsubsidized | Low, but paid throughout college | No | Up to $57,500 total\*\* | Undergraduate or graduate student |
| Direct PLUS | Relatively higher | No | Cost of attendance minus financial aid | Parent of undergraduate |
| **Private Loans** | Often variable, higher than federal rates, interest not subsidized | No | Varies by lender, generally cost of attendance minus financial aid | Student, loans often require a cosigner |

\*To be eligible for federal loans, students must complete the **Free Application for Federal Student Aid (FAFSA).**

\*\*The maximum students can borrow depends on their year in school, status as a dependent or independent, and the type of loan they are seeking.

* **Scholarships and Grants.** Receiving

**Scholarship Search**

[www.anthonyoneal.com/scholarships](http://www.anthonyoneal.com/scholarships)

[www.collegescholarships.org/financial-aid](http://www.collegescholarships.org/financial-aid/)

[studentaid.gov/understand-aid/types/grants/pell](https://studentaid.gov/understand-aid/types/grants/pell)

[www.fastweb.com](http://www.fastweb.com/)

a scholarship or grant is the ideal

way to pay for college, as they fund

education at no cost to the recipient.

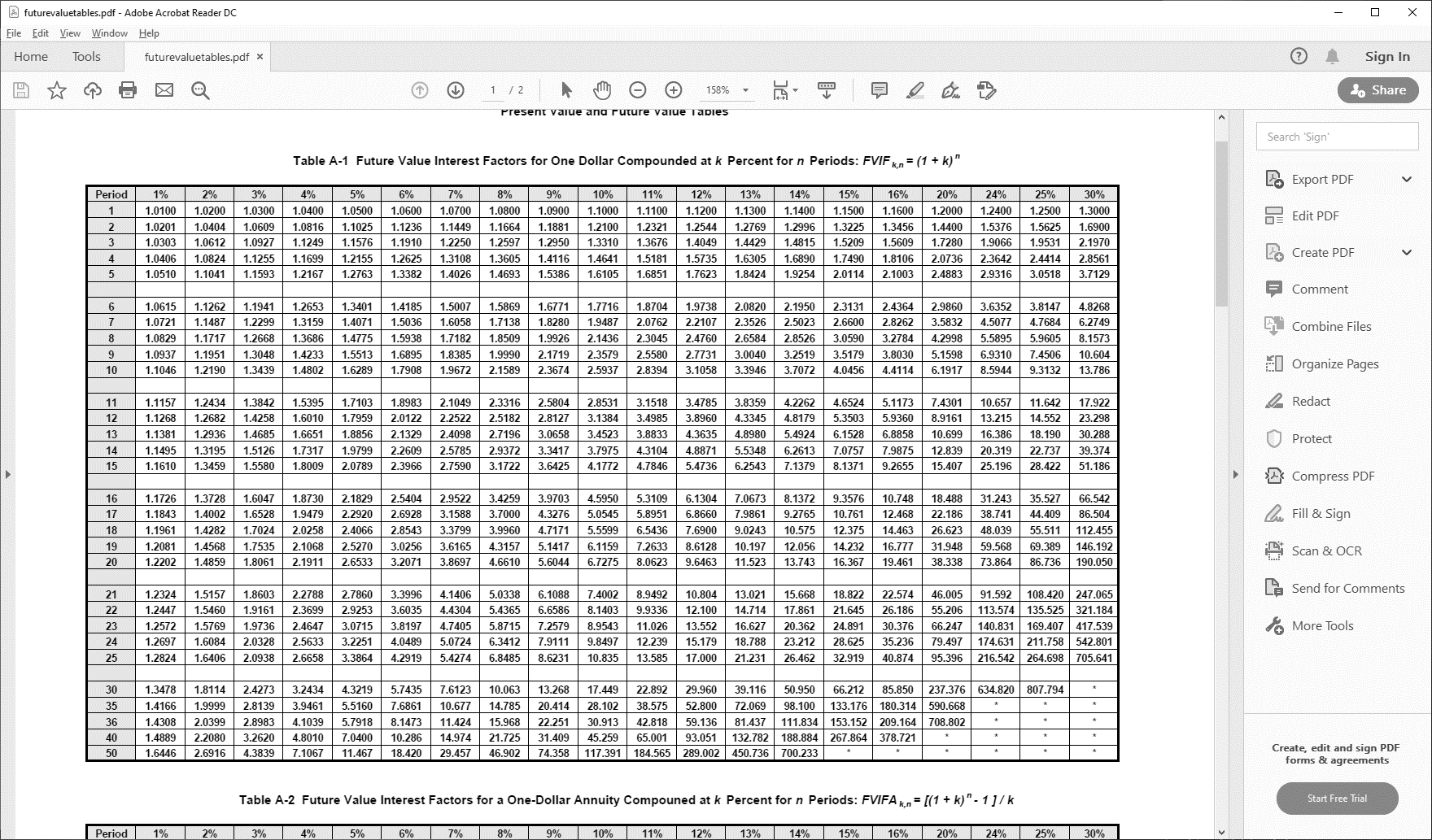
They are, however, only accessible if

they are sought out. Use this list

of resources to begin your search.

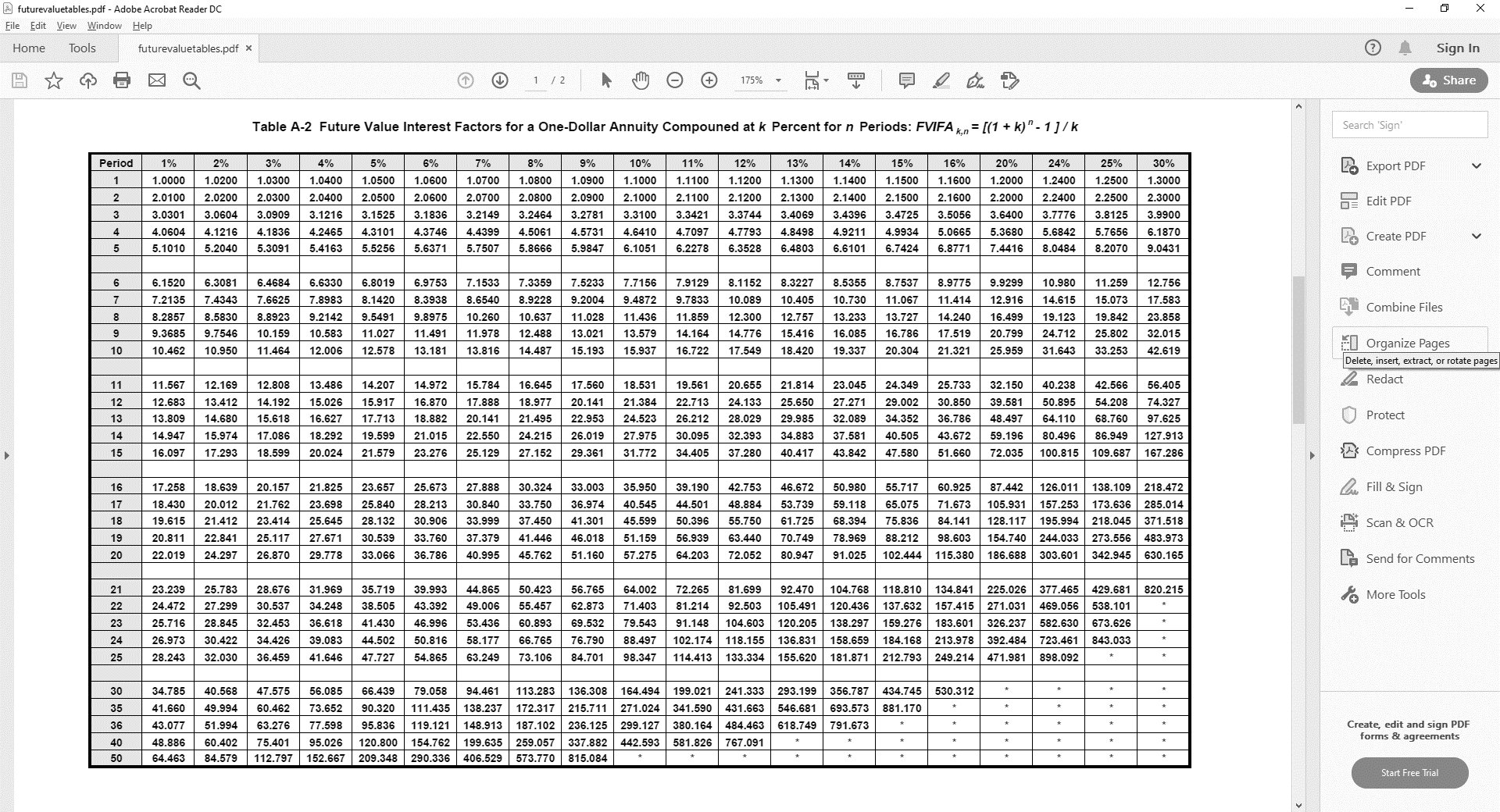
* **IRAs.** Early withdrawal penalties are **waived to pay for college costs** for you, spouse, children, and grandchildren, but income taxes still apply. If you take advantage of this exclusion, you might be foregoing state-specific benefits for alternatives (like 529 plans). Additionally, the amount you withdraw from your IRA counts as income for need-based funding applications (like the FAFSA).
* **Alternatives.** There are many less traditional routes that you can take to fully fund your education, including an endowed tuition plan, discount opportunities at your selected college, asset/gift plans, work/study programs, and on-campus employment.

**Resources**

**Future** **Value** **of** **$1**

**Contact Us!**

Paying for college can be extremely stressful. Preparation takes years and often requires you to weigh payment options against expected future income. Thinking that far ahead is not easy, but with careful consideration and the proper resources, you can fund the most sensible college experience for you or your child. If you have a question about funding education, please do not hesitate to contact our office for more information or to schedule a consultation. You can reach us by phone at **(225) 223-6048** or you can email us at **admin@graffinancial.com**.

**Future** **Value** **of** **an** **Annuity**