COLLEGE SAVINGS GUIDEBOOK

The *Financial Principles Guidebook* is a comprehensive collection of our planners' insights to help you along your pursuit of financial independence.

IN THIS GUIDEBOOK

With the cost of college tuition having risen at an annual rate of 6.0%* (more than twice the rate of inflation), having a plan to save for college education costs is crucial. Do you have a child or grandchild for whom you would like to save for their future education costs? We have prepared this Guidebook to review some of the different vehicles for saving for college. ***We hope that you find this information valuable. Should you have any questions, please do not hesitate to contact our office. If you have a friend, family member, colleague, or client who may benefit from this Guidebook, please do not hesitate to share it with them*.**

* source: BLS, Consumer Price Index 12/31/1982-12/31/2020

FOCUSED ON YOUR FINANCIAL INDEPENDENCE

The rising cost of college tuition

With our economy increasingly being more service oriented, and more emphasis being put on higher education, it is no wonder that demand for college education is rising. As demand rises, it increases the number of colleges and universities, necessitates the hire of more faculty and administrative staff to support growing campus populations, and admissions offices are spending more to attract the best students. Likewise, as state budgets are extended, colleges are receiving less financial support from the states. It is no wonder that in recent decades college tuition costs have risen more quickly than any other household expense. From 1983 to present, college tuition costs have risen a cumulative 822%. This represents a 6.0% annual increase. By comparison, gasoline costs have risen 106%, housing has risen 181%, and clothing has only risen 20%.[1]

It is projected that if the current inflation rate seen on college tuition continues, the average cost of a four-year college education for a newborn will be $230,069 at a public institution and a staggering $526,629 at a private institution.[2]

What about Financial Aid and Scholarships?

As college tuition costs have been rising, financial aid has been declining. From 2011 to 2020, despite tuition costs rising the total financial aid awarded to familes has remained steadily constant falling slightly from $185 billion to $184 billion.[3] Of families who are not yet saving for college, many expect grants or scholarships to cover the costs of education, yet only 0.3% of college students receive enough grants and scholarships to cover costs. In reality, only 48% of families received need-based financial aid in 2020 with an average grant of $6,030.[4] Likewise, only 58% of families received merit-based scholarships with an average scholarship of $7,923.[5]

How are we going to pay?

With the annual cost of tuition rising so quickly, and the availability of aid and scholarships falling, more of the burden of tuition costs will fall on students and their families going forward. To pay for these costs, families will need to rely on their current income, savings, and loans. Therefore, it is important to have a savings plan, and to start as soon as possible towards those savings goals.

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[1] BLS, Consumer Price Index, J.P. Morgan Asset Management. Data represent cumulative percentage price change from 12/31/82 to 12/31/20

[2] J.P. Morgan Asset Management, using The College Board, 2020 Trends in College Pricing. Future college costs estimated to inflate 5% per year. Average tuition, fees and room and board for public college reflect four-year, in-state charges.

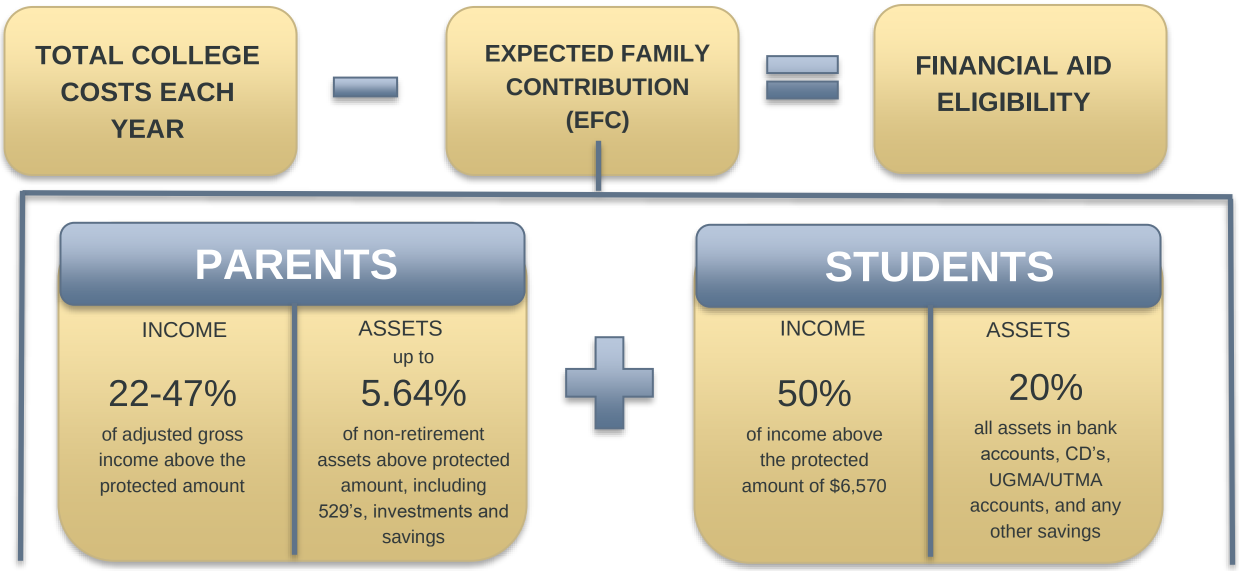
[3] The College Board, 2020 Trends in College Pricing and Student Aid.

[4] Sallie Mae, *How Americans Pay for College, 2020*

[5] Finaid.org. Based on full-time students at four-year colleges

How do I know if I am eligible for Financial Aid?

The Department of Education calculates the "Expected Family Contribution" (EFC) which helps determine your eligibility for financial aid. The EFC is calculated as follows:



*protected amount for parents is dependent upon several factors including household size and number of students in college
Based on federal methodology for 2018–19 school year. To learn more about how EFC is calculated, see https://ifap.ed.gov/efcformulaguide/attachments/071017EFCFormulaGuide1819.pdf.

What is my Expected Family Contribution?

Your EFC is not the amount that your family will pay for college. It is also not the amount that your family should expect to receive in financial aid. It is a number that when deducted from the total annual college costs is used to calculate how much aid you are eligible to receive. Families may be expected to contribute more than their EFC towards college costs. You can use the chart below to estimate your Expected Family Contribution.

ASSETS (EXCLUDING PRIMARY RESIDENCE AND RETIREMENT ACCOUNTS)

COMBINED INCOME	$0	$25,000	$50,000	$100,000	$150,000	$200,000	$250,000	$300,000
$50,000	$2,241	$2,740	$3,400	$4,856	$6,684	$8,925	$11,672	$14,492
$75,000	$7,734	$8,197	$9,406	$12,226	$15,046	$17,866	$20,686	$23,506
$100,000	$15,880	$16,946	$18,356	$21,176	$23,996	$26,816	$29,636	$32,456
$125,000	$23,676	$24,742	$26,152	$28,972	$31,792	$34,612	$37,432	$40,252
$150,000	$32,005	$33,071	$34,481	$37,301	$40,121	$42,941	$45,761	$48,581
$175,000	$40,409	$41,475	$42,885	$45,705	$48,525	$51,345	$54,165	$56,985
$200,000	$48,689	$49,755	$51,165	$53,985	$56,805	$59,625	$62,445	$65,265
$225,000	$56,403	$57,469	$58,879	$61,699	$64,519	$67,339	$70,159	$72,979
$250,000	$64,116	$65,182	$66,592	$69,412	$72,232	$75,052	$77,872	$80,692

Example: If you earn $150,000 in income and have $200,000 in assets, your estimated EFC is **$42,941.**

Source: J.P. Morgan Asset Management and fafsa.gov. Based on two-parent household with one child attending college, one child living at home, all are residents of New York. Assumes no income or assets for each dependent and age 49 for eldest parent. Protected amounts for assets vary based on age and income. These are estimates provided for illustrative purposes only, and they may not be representative of your personal situation and circumstances.

Comparing College Savings Vehicles

529 PLAN

- Tax-free investing and withdrawals for qualified education expenses*
- Account owner control for the life of the account
- No income limitations on contributions or age restrictions on beneficiaries
- High contribution maximums, often $400,000 or more
- Low impact on financial aid eligibility
- Assets are removed from taxable estate of grantor
- Tax-free gifts of up to $150,000 per beneficiary in a single year**
- Portability of assets can be transferred to another beneficiary with a familial relationship
- Some states may offer tax deductions and other incentives to residents for using their state plan

UGMA/UTMA

- Some investment earnings may be taxed at child's rate, the rest at rates for trusts/estates
- Child assumes control of account at age of majority (usually 18-21)
- Funds must be used for the child's benefit, not necessarily for college
- High impact on financial aid eligibility
- Assets are not removed from taxable estate if donor is also custodian

COVERDELL ESA

- Tax-free investing and withdrawals for any level of education expense
- Must contribute before beneficiary turns 18 and must use assets by 30
- Income limits on contributors
- Maximum contribution of $2,000 per year per beneficiary
- Low impact on financial aid eligibility
- Assets removed from taxable estate

* Earnings on non-qualified withdrawals may be subject to federal income tax and a 10% federal penalty tax, as well as state and local income taxes. Federal law allows distributions for tuition expenses in connection with enrollment or attendance at an elementary or secondary public, private or religious school ("K-12 Tuition Expenses") of up to $10,000 per beneficiary per year. Under New York State law, distributions for K-12 Tuition Expenses will be considered non-qualified withdrawals and will require the recapture of any New York State tax benefits that have accrued on contributions.
** No additional gifts can be made to the same beneficiary over a five-year period. If the donor does not survive the five years, a portion of the gift is returned to the taxable estate.

CASH SAVINGS

- No tax-deferral or tax-free growth on investments
- Low historic rates of return

INVESTMENTS

- No tax-deferral or tax-free growth on investments
- If college does not attend college, greater flexibility with funds
- Parent retains ownership and control of assets
- Not limited to investment options within a state-sponsored 529 plan

PREPAID STATE PLAN

- Prepaid credits at a discount thereby making rate of return and future value more certain
- Limitation to state schools
- Limited flexibility or transferability of student does not attend a state school

Other Savings Options

Retirement Accounts- Some families report utilizing an IRA or Roth IRA to help fund college education costs. We recommend against this as contribution limits are lower than other savings vehicles and by making contributions to these accounts with the intent of using them for college education costs you are limiting your ability to fund retirement accounts for your own future retirement plans.

Many parents will also tap retirement accounts to help fund shortfalls in their children's college funding. While the IRS will waive the 10% penalty for early (pre-59 and one half) withdrawals from a retirement account, we recommend parents think twice before tapping their retirement savings as a source of college tuition payments. In 2020, 27% of families reported having dipped into their 401(k)'s to fund college expenses while another 20% tapped into Traditional and Roth IRA's.[6] While helping your children and grandchildren fund their college education expenses is an important goal, your own retirement plan must be considered, and we caution parents from jeopardizing their own retirement plans when other options for funding their children's college education may be available.

Cash Value Life Insurance- In 2020, 8% of families reported using cash value life insurance to fund college expenses.[7] While a cash value life insurance policy can offer parents tax-deferred growth and potential tax-free withdrawals, we note that cash value life insurance policies generally are complex, carry high insurance and administrative costs, and in the event of a policy lapsing due to excess withdrawals or rising fees, there could be adverse tax consequences.

DON'T JUST SAVE, INVEST!

Cash alone won't get you there. We have already established that college tuition costs have risen 6.3% per year since 1983 and savings accounts are currently yielding record low interest rates. Therefore, when utilizing a savings account, every dollar you save today is losing future tuition purchasing power. If we assume that you start with an initial college savings of $10,000 for a newborn and save $500 per month until their 18th birthday, a cash account could result in $143,460 in savings (assuming a 2% rate of return) while a 529 plan could yield a $248,536 result (assuming a 7% rate of return). These returns are hypothetical and are not indicative of any specific investment, results may vary.

DON'T WAIT, START SOONER RATHER THAN LATER

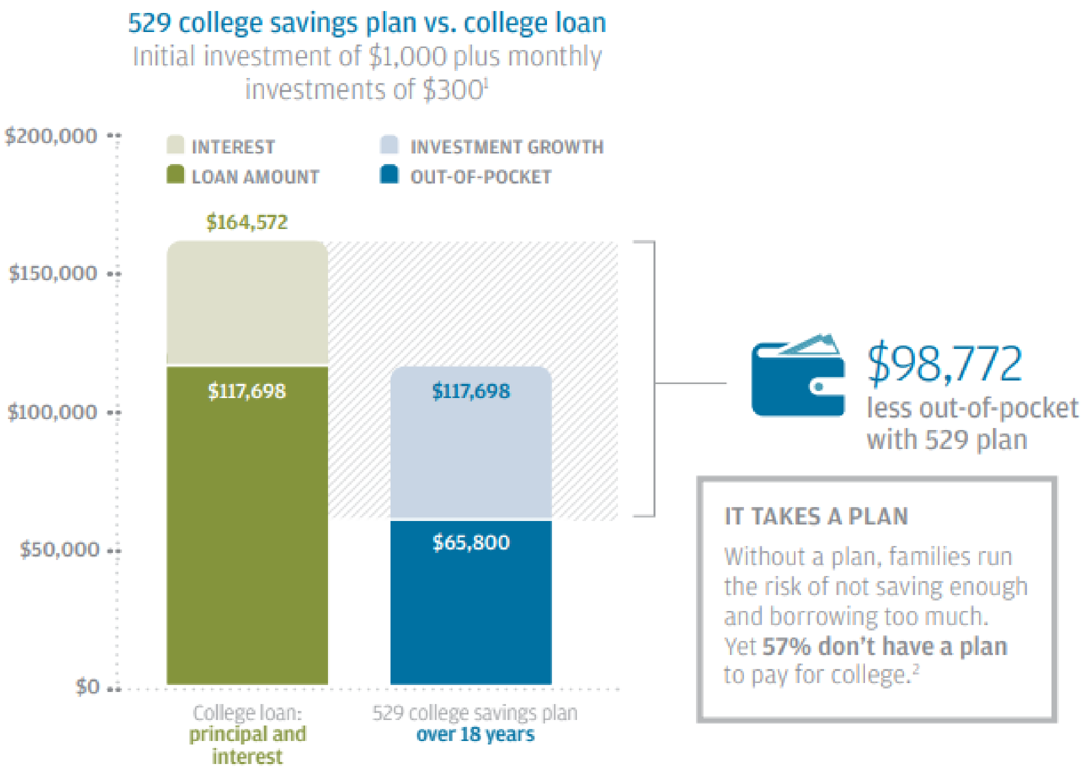
They say that in life the early bird catches the worm. This is true of saving and investing. The longer you save, the more impactful the power of compounding interest. As you can see in the illustration below, if you save $300 per month for a newborn you could potentially fund 50% of the cost of a public college education. If you wait until the newborn is six, you would have to save $411 per month to save the same amount.[8]

	PUBLIC COLLEGE[1]				PRIVATE COLLEGE[1]			
	Total four-year cost	Monthly investment to pay:			Total four-year cost	Monthly investment to pay:		
Child's current age		50%	75%	100%		50%	75%	100%
Newborn	$230,069	$300	$451	$601	$526,629	$688	$1,032	$1,376
3	$198,743	$345	$517	$689	$454,922	$789	$1,183	$1,578
6	$171,681	$411	$616	$822	$392,978	$940	$1,410	$1,881
9	$148,305	$521	$781	$1,042	$339,469	$1,192	$1,789	$2,385
12	$128,111	$741	$1,112	$1,483	$293,246	$1,697	$2,546	$3,394
15	$110,667	$1,403	$2,105	$2,806	$253,317	$3,212	$4,818	$6,424

[6] Strategic Insight, 529 Industry Analysis: 2020
[7] Strategic Insight, 529 Industry Analysis: 2020
[8] J.P. Morgan Asset Management. Based on average tuition, fees and room/board costs for 2020-21 school year, The College Board, 2019 Trends in College Pricing. Costs estimated to inflate 5% per year. This hypothetical example illustrates the future values of different regular monthly investments for different time periods and assumes an annual investment return of 6%, compounded monthly. This hypothetical example does not represent the performance of any particular investment. Different assumptions will result in outcomes different from this example. Your results may be more or less than the figures shown. These figures do not reflect the impact of fees or expenses that would be paid by a 529 plan participant. Such costs would lower performance. A plan of regular investment cannot ensure a profit or protect against a loss in a declining market.

The cost of planning to borrow for college in the future rather than save today

Saving today for a future expense should not only reduce the cost to you of the expense (thanks to compound earnings), but if you plan to borrow for the expense you will need to pay an interest cost on that expense. The below illustrates how small monthly savings over your child's life can yield substantial savings over the long term.



1. J.P. Morgan Asset Management. The investing illustration assumes an initial lump-sum investment of $1,000, subsequent monthly investments of $300 thereafter for 18 years, and assumes an annual investment return of 6%, compounded monthly. Investment losses could affect the relative tax-deferred investing advantage. Each investor should consider his or her current and anticipated investment horizon and income tax bracket when making an investment decision, as the illustration may not reflect these factors. The borrowing illustration assumes an interest rate of 7.08% and a payback period of 10 years. This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of fees or expenses. This chart is shown for illustrative purposes only. Past performance is no guarantee of future results.
2. Sallie Mae, *How America Pays for College*, 2019.

What about student loans?

With more than $1.54 trillion in outstanding student debt, student loan debt has become a main stream topic of discussion in the media and among politicians and legislators. When it comes to student loans, we caution clients and their children against taking on large sums of debt. Starting your working career with large debts will have a serious impact on not only your standard of living, but your ability to save and invest for your own retirement and other long-term goals (yes, saving for retirement should be a priority for all young investors, see our "Young Investors Guidebook"). Like all decisions, families need to do a cost-benefit analysis when considering taking on debts—and students must fully understand the costs, repayment terms, and long-term impact these debts will have on their futures.

For those who have student loans, we counsel them to ensure their loans have a fixed interest rate and defined payment terms so that they have a clear schedule for repayment of those loans. While recent graduates may be eager to leave home, whenever possible they should consider staying home for a year, or a few, so that they can pay down their debts and start their own savings!

The 529 plan advantage

BENEFIT	WHAT IT MEANS
Tax-advantaged investing	• **Tax-deferred compounding** of contributions and earnings • **Tax-free withdrawals** for qualified education expenses[1] • **Tax-deductible contributions** in some states
Estate planning benefits	• Contributions and investment gains **removed from taxable estate** • Option to make **five years of tax-free gifts in a single year** – up to $150,000 per beneficiary from couples and $75,000 from individuals[2] • **Only completed gift that can be revoked** under current laws
Control and flexibility	• Account owner retains **full control over assets** • **Can change beneficiaries** or transfer unused assets to certain other family members • Covers **any qualified expense** at accredited schools throughout the U.S. and overseas, including vocational and trade schools[3] • **Minimal impact on financial aid eligibility** when owned by parents
Accessibility	• **No income limits** on contributors • **No age limits** on beneficiaries or contributors
Affordability	• Very **low investment minimums** make it easy to get started • **High contribution limits**, often $400,000 or more per beneficiary[4]

QUALIFIED EDUCATION EXPENSES

All 529 plans
- Tuition & fees
- Room & board
- Books & supplies
- Special needs services
- Computers & related equipment

Some 529 plans[5]
- Education loan payments
- K-12 tuition
- Apprenticeship programs

Source: Internal Revenue Service.

1. Earnings on federal non-qualified withdrawals may be subject to federal income tax and a 10% federal penalty tax, as well as state and local income taxes. New York State tax deductions may be subject to recapture in certain additional circumstances such as rollovers to another state's 529 plan, or withdrawals used to pay elementary or secondary school tuition, registered apprenticeship program expenses, or qualified education loan repayments as described in the Disclosure Booklet and Tuition Savings Agreement. State tax benefits for non-resident New York taxpayers may vary. Tax and other benefits are contingent on meeting other requirements. Please consult your tax professional about your particular situation.
2. No additional gifts can be made to the same beneficiary over a five-year period. If the donor does not survive the five years, a portion of the gift is returned to the taxable estate.
3. To search for accredited schools, visit https://fafsa.ed.gov/spa/fsc/#/SEARCH.
4. The Program Administrators impose a maximum aggregate balance of all accounts for a single beneficiary in qualified tuition programs sponsored by the State of New York, which limits the amount of contributions that may be made for any one beneficiary, as required by Section 529 of the Internal Revenue Code. The current maximum account balance is $520,000.
5. Rules vary by 529 plan. Check with individual plans and your tax professional for more information.

Common 529 Questions

What if the funds in a 529 aren't used for a qualified education expense? If funds in a 529 plan are withdrawn for something other than a qualified education expense, the earnings portion of the account is taxed as ordinary income and is subject to an additional 10% penalty assessed by the IRS.

What if my child doesn't go to college? If your child doesn't go to college, the funds in a 529 plan can also be used for trade school and other technical schools. Funds in a 529 plan are also portable and can be used for other family members.

What if my child gets scholarships or grants? If your child receives scholarships and grants for their tuition, the funds in a 529 can also be used to fund school supplies, books, and even room and board. While it is rare that all of a student's college costs be covered by scholarships and grants—if they are, you can withdraw from a 529 plan the amount of their scholarship without incurring a penalty, though income taxes would be due on the earnings.

Can I open a 529 plan for anyone? Yes! You can open a 529 plan for anyone (a niece, nephew, grandchild, or even friend). In fact, since the funds in a 529 plan are removed from your estate and there are accelerated gifting allowances, the 529 plan can be a great estate planning tool to give tax efficient gifts to heirs. However, we caution that funds withdrawn from a 529 for a beneficiary that are owned by someone other than a parent can affect financial aid eligibility. Therefore, we recommend that you confirm a plan's ownership can be changed to the beneficiary's parent as they approach their college years or that the funds in these plans not be withdrawn until the student's final two years of college (as financial aid applications use income and tax information from two years prior).

HAVE A TOPIC YOU WANT TO SEE COVERED IN THE GUIDEBOOK?

Call or email your advisor with a suggestion for a topic to be covered in The Guidebook. If we have covered it, we will send you that edition. If we haven't, we will cover it!

HAVE A FRIEND, NEIGHBOR, COWORKER, OR RELATIVE WHO COULD BENEFIT FROM THIS GUIDEBOOK?

Feel free to forward our Guidebook to anyone you feel would benefit from this information. We would be happy to speak with them and answer any questions that they may have.

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