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Post this text with any of the images linked on the following 2 pages.

The average cost of college in the United States is $35,720 per student per year. Cash value life insurance could be a secret weapon for college savings to help tackle the cost. Contact me today for a free quote!

Permanent life insurance policies can help fund college expenses. Contact me today to learn how!

Are you worried about paying to send your children to college? Start funding a permanent life insurance policy when your kids are in middle school or younger - this gives you time to build cash value in order to borrow funds when your children go to college. Contact me today to find out how to make this work for you!

Permanent life insurance: a financial shield against the unthinkable *and* a way to help pay tuition costs. Contact me today for a free quote!

The cornerstone of a solid financial plan begins with life insurance. Contact me today for a free quote.

Could a college-funding strategy using life insurance work for you? Contact me today for a free quote!

If you need life insurance protection, have children up to 13 years old, and are concerned about college tuition costs – college funding with permanent life insurance may be the answer. Contact me today to find out why!

Achieve financial protection *and* help pay for the increasing costs of college tuition. Life insurance can be a great choice to help fund a college education. Contact me today for a free quote!

Are you worried about how to fund a college education for your child? Permanent life insurance can give you the flexibility and funds you need to give your child the education they deserve. Contact me today for a free quote.

Contact me to protect what’s important now - all while helping to fund a college education!

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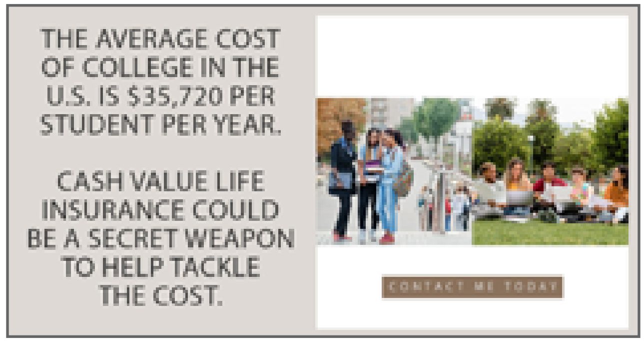

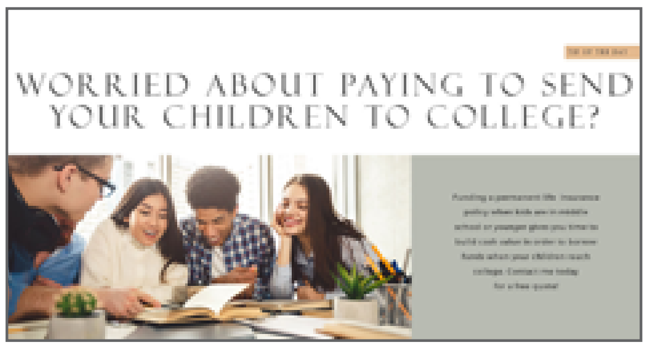

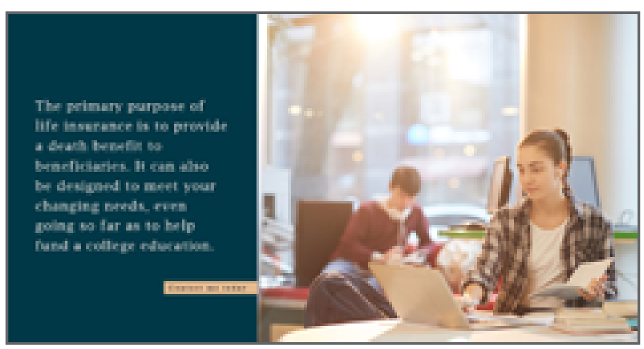

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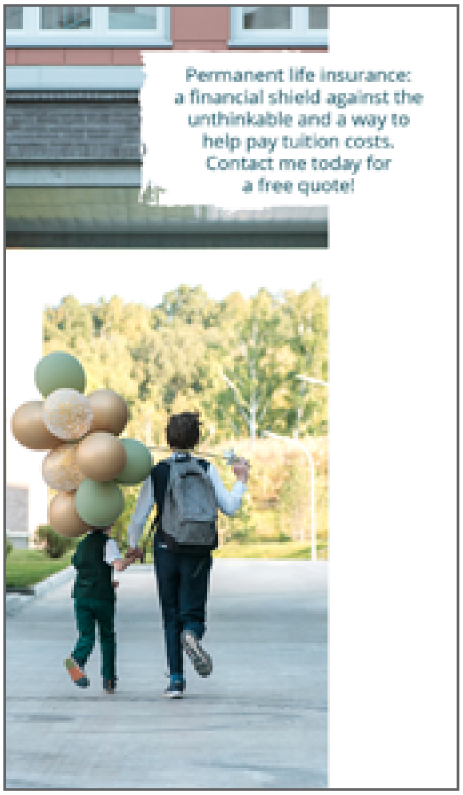
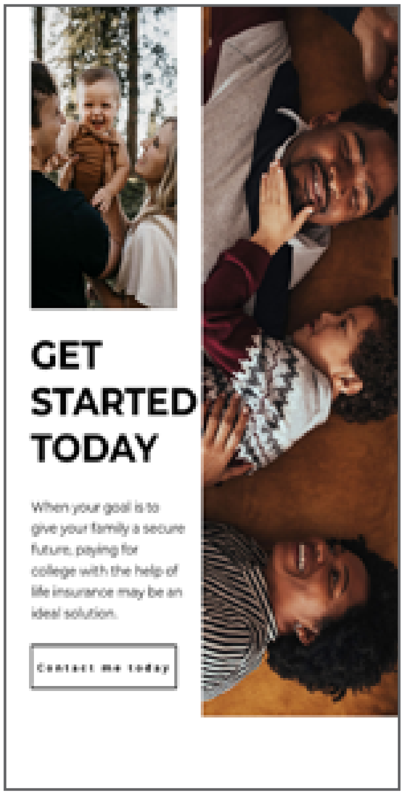




Average Cost of College & Tuition

By Melanie Hanson |

Last Updated: June 12, 2022

Fact Checked | Cite this Webpage

Report Highlights. The average cost of college* in the United States is **$35,331** per student per year, including books, supplies, and daily living expenses.

- The average cost of college has more-than doubled in the 21st century, with an annual growth rate of **6.8%**.
- The average in-state student attending a public 4-year institution spends **$25,487** for one academic year.
- The average cost of in-state tuition alone is **$9,349**; out-of-state tuition averages **$27,023**.
- The average traditional private university student spends a total of **$53,217** per academic year, **$35,807** of it on tuition and fees.
- Considering student loan interest and loss of income, the ultimate cost of a bachelor's degree can exceed **$400,000**.

**In this context, college refers to any 4-year postsecondary institution that offers an undergraduate degree program; this is the average cost to first-time, full-time undergraduates.*

Jump to a state: AL | AK | AZ | AR | CA | CO | CT | DE | FL | GA | HI | ID | IL | IN | IA | KS | KY | LA | ME | MD | MA | MI | MN | MS | MO | MT | NE | NV | NH | NJ | NM | NY | NC | ND | OH | OK | OR | PA | RI | SC | SD | TN | TX | UT | VT | VA | WA | WV | WI | WY

Annual Cost of College

Public Institutions	Cost of Tuition	Additional Expenses**	Cost of Attendance
4-Year In-State	$9,349	$16,138	$25,487
4-Year Out-of-State	$27,023	$16,138	$43,161
2-Year In-State	$3,377	$12,371	$15,748
Private Institutions	**Cost of Tuition**	**Additional Expenses**	**Cost of Attendance**
4-Year Nonprofit	$35,807	$17,410	$53,217
4-Year For-profit	$14,957	$20,168	$35,125
2-Year Nonprofit	$16,898	$17,121	$34,019
2-Year For-profit	$15,333	$17,046	$32,379

***Additional expenses do not account for potential lost income nor student loan interest.*

Related reports include Student Loan Debt Statistics | Average Cost of Community College | How Do People Pay for College? | Student Loan Refinancing

Average Total Cost of College

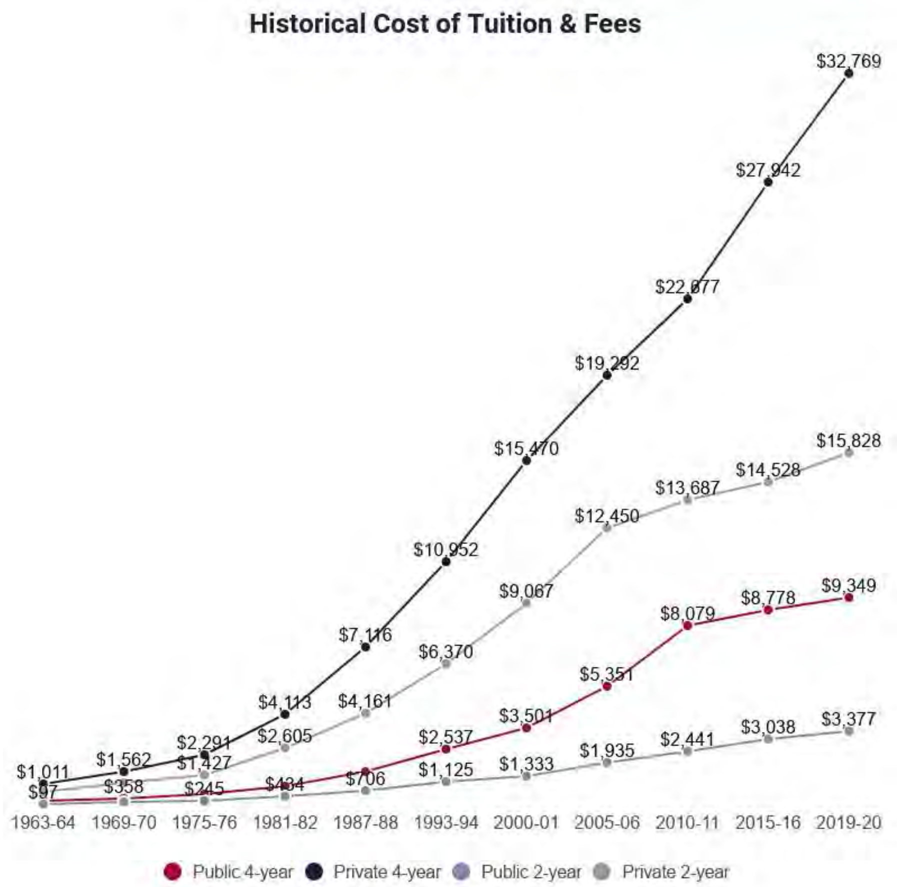
The cost of attendance (COA) refers to the total cost of tuition and fees, books and supplies, as well as room and board for those students living on campus. COA does not include transportation costs, daily living expenses, student loan interest, etc.

- The average cost of attendance for a student living on campus at a public 4-year in-state institution is $25,487 per year or $101,948 over 4 years.
- Out-of-state students pay $43,161 per year or $172,644 over 4 years; traditional private univeristy students pay $53,217 per year or $212,868 over 4 years.
- While 4 years is the traditional period to earn a bachelor's degree, just 39% of students graduate within 4 years.
- 60% of bachelor's degree earners graduate within 6 years, totaling an average of $152,922 for the cost of attendance.
- Students unable to work full-time stand to lose $40,612 in yearly income.
- Student borrowers pay an average of $1,898 in interest each year, and the average student borrower spends roughly 20 years paying off their loans.

- Considering lost income and loan interest, the ultimate price of the average bachelor's degree may be as high as $400,000.

Total Cost of a Degree

Public Institutions	Total Cost of Tuition	Total Additional Expenses	Total Cost of Degree
4-Year In-State	$37,396	$64,552	$101,948
4-Year Out-of-State	$108,092	$64,552	$172,644
2-Year In-State	$6,754	$24,742	$31,496
Private Institutions	**Total Cost of Tuition**	**Total Additional Expenses**	**Total Cost of Degree**
4-Year Nonprofit	$143,228	$69,640	$212,868
4-Year For-profit	$59,828	$80,672	$140,500
2-Year Nonprofit	$33,796	$34,242	$68,038
2-Year For-profit	$30,666	$34,092	$64,758



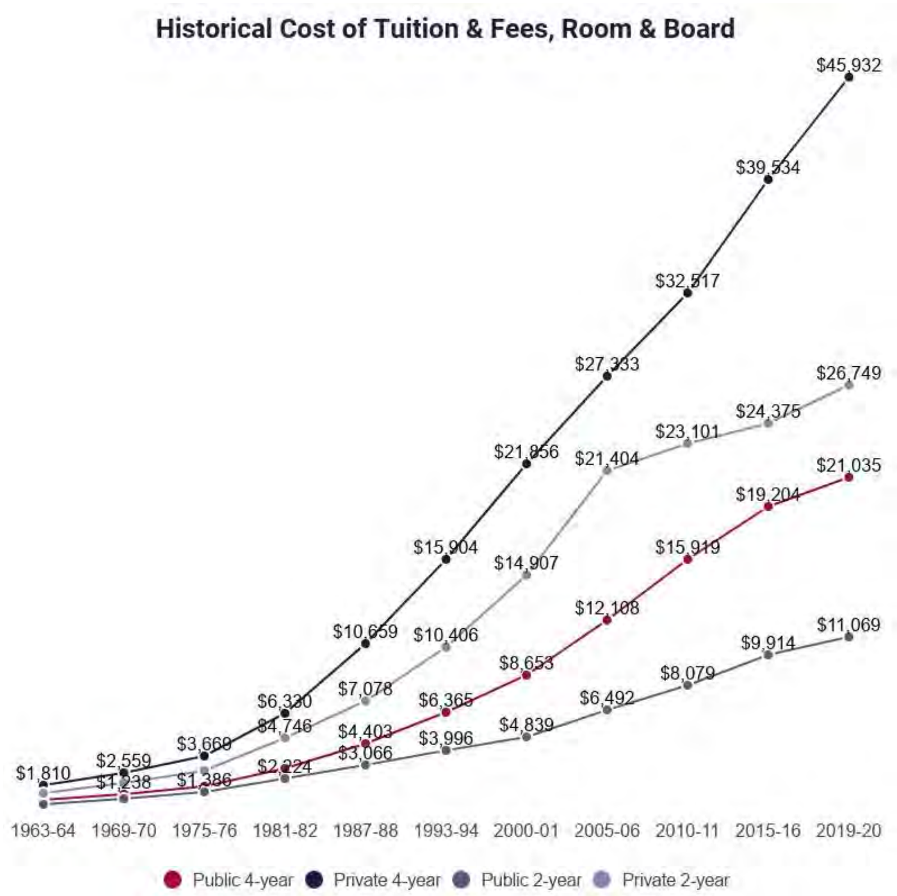
Average Cost of Tuition

Tuition and fees make up the bulk of most college students' educational expenses.

- The average cost of attendance at any 4-year institution is $35,331.
- The average cost of tuition at any 4-year institution is $28,775.
    - At public 4-year institutions, the average in-state tuition and required fees total $9,349 per year; out-of-state tuition and fees average $27,023.
    - Among private 4-year institutions, the average tuition and fees at a nonprofit college total $35,807

annually; at for-profit institutions, tuition and fees average $14,957 annually.

- The average cost of tuition and fees at any 2-year institution is $3,621.
    - At public 2-year institutions, or community colleges, in-district tuition and fees average $3,377 annually; out-of-state students pay an average of $8,126.
    - At private 2-year institutions, students pay $16,898 in annual tuition and fees to attend nonprofit schools; for-profit colleges charge $15,333.
- Among the comparatively few institutions that offer programs of less than 2 years, the average annual tuition and fees are $12,735.
- Most institutions designated less-than-2-year are private, for-profit schools.
- There are not enough data available regarding these institutions to derive much statistical meaning.



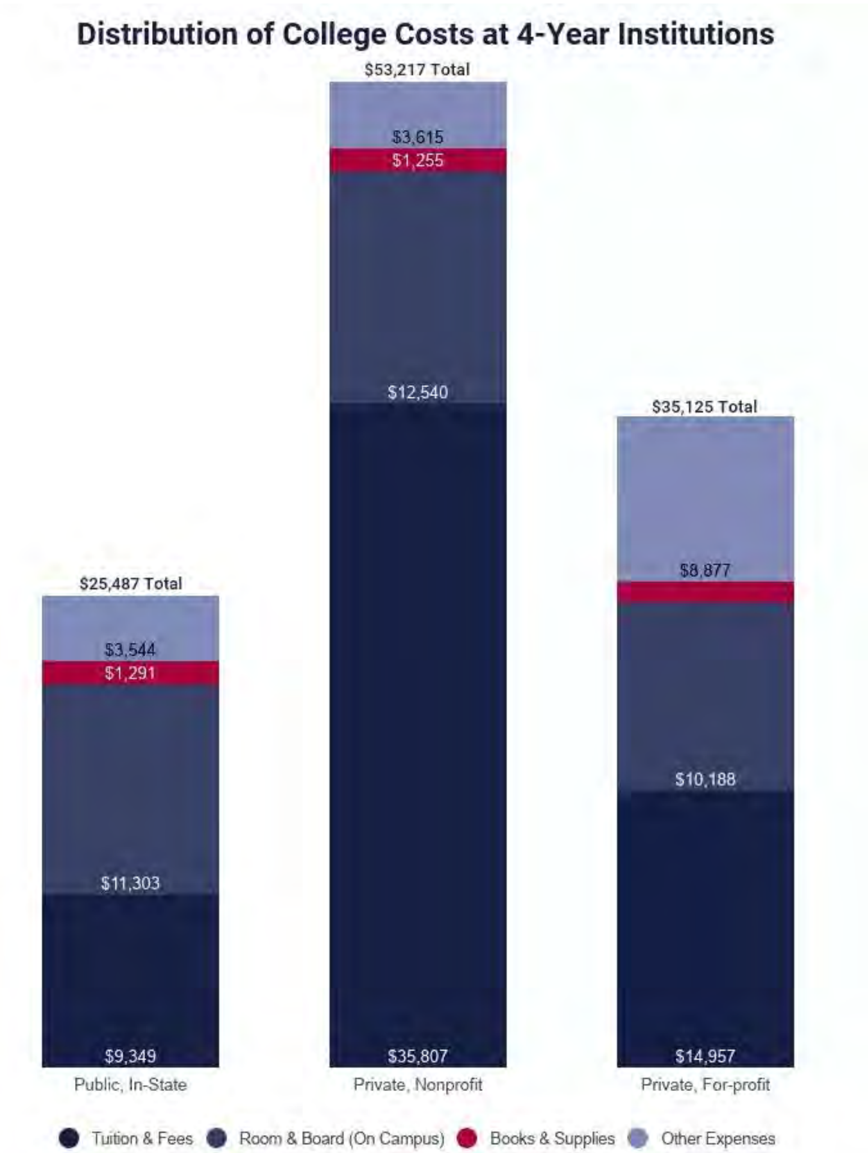
Historical Average Cost of Tuition

The cost of tuition has increased significantly over the last 40 years even after adjusting for inflation.

- In 1963, the annual cost of tuition at a 4-year public college was $243, which is $2,207 when adjusted for inflation.
- Adjusting for inflation, the cost of tuition has increased by $7,142 or 324%.
- Between 2009-10 and 2019-20, before adjusting for inflation, the average tuition increase at 2-year colleges was $698 or 23.9%.
- During the same period, the average tuition increased 39.2% or by $2,632 at public 4-year institutions and

47.2% or $10,500 at private 4-year institutions.

- From 1989 to 2016, college costs increased almost 8 times faster than wages.
- In 1963, the cost of a 4-year-degree was $5,144.
- In 1989, the same degree cost $52,892.
- As of the 2019-20 academic year, $101,584 is the price of a bachelor's degree.



Average Cost of Books & Supplies

Some programs require more expensive materials than others, so the cost of books and supplies varies widely.

- At public 4-year institutions, students pay an average of $1,291 annually on books and supplies.
- Books and supplies at private, non-profit institutions average $1,255; at private, for-profit institutions, the average cost is $1,103.
- At public 2-year institutions, students pay an average of $1,538 each year for books and supplies.
- At private, nonprofit institutions, books and supplies average $1,061; at private, for-profit 2-year colleges, the average cost is $1,415.

Average Cost of Room & Board

The determining factor in the cost of room and board is whether the student lives on or off campus.

- At 4-year institutions, the cost of room and board ranges from $9,395 to $12,540.
  - At public 4-year institutions, students living on campus pay an average of $11,303 annually for room and board; off-campus boarders pay $10,631.
  - At private, nonprofit institutions, on-campus boarders pay an average of $12,540 per academic year; students living off campus pay $9,943.
  - At private, for-profit institutions, on-campus room and board averages $10,188; students living off campus pay an average of $9,395.

- There is wider variation in room and board costs at 2-year institutions, with costs ranging from $7,008 to $12,30.
  - At public 2-year institutions, students living on campus pay an average of $7,008 for their annual room and board; students living off campus pay $9,276.
  - At private, nonprofit 2-year colleges, on-campus boarders pay $11,825 annually; off-campus boarders pay $9,692.
  - Private, for-profit institutions charge $12,730 on average for room and board; students living off campus pay $8,899.

Most Expensive 4-Year Private Nonprofit Universities

Institution	Location	Tuition
Columbia University in the City of New York	New York, NY	$61,788
University of Chicago	Chicago, IL	$60,552
Jewish Theological Seminary of America	New York, NY	$59,112
Landmark College	Putney, VT	$59,100
Trinity College	Hartford, CT	$59,050
Franklin and Marshall College	Lancaster, PA	$58,800
Vassar College	Poughkeepsie, NY	$58,770

Institution	Location	Tuition
Harvey Mudd College	Claremont, CA	$58,660
Amherst College	Amherst, MA	$58,640
Tufts University	Medford, MA	$58,578

Average Additional Expenses

Necessary living expenses, such as transportation, personal care, and entertainment, may be included in the final total cost of college attendance. These expenses vary according to the local economy as well as the student's housing status.

- Additional expenses at 4-year institutions range from $2,733 to $6,022.
    - Students living on campus at a public 4-year institution pay an average of $3,468 in additional annual expenses.
    - Students who live off campus may expect to pay $4,213 if they do not live with family; for students living with family, additional expenses average $4,204.
    - At private, nonprofit 4-year institutions, students living on campus spend an average of $2,733 on additional expenses.
    - Students living off campus alone or with nonfamily members spend $6,022 on additional living expenses; those living off campus with family spend $4,220.

- At private, for-profit institutions, additional expenses average $4,749 for students living on campus.
- Students who live off campus spend an average of $4,431; those who live off campus with family spend $4,558.

- At 2-year institutions, additional expenses average between $2,498 and $5,150.
  - Students living on campus at a public 2-year institution pay an average of $3,390 in additional annual expenses.
  - Students living off campus pay $4,237 in additional expenses; students living off campus with family have an average of $4,258 in annual expenses.
  - Students living on campus at 2-year private, nonprofit institutions pay an average of $2,501 in additional annual expenses.
  - Students living off campus alone or with nonfamily members spend $4,753, while students living off campus with family members spend $4,767.
  - Students at private, for-profit 2-year institutions spend an average of $2,498 on additional expenses if they live on campus.
  - Students living off campus spend $5,150 if they do not live with family members; students who live off campus with family spend an average of $4,273.

Most Affordable 4-Year Private Nonprofit Universities

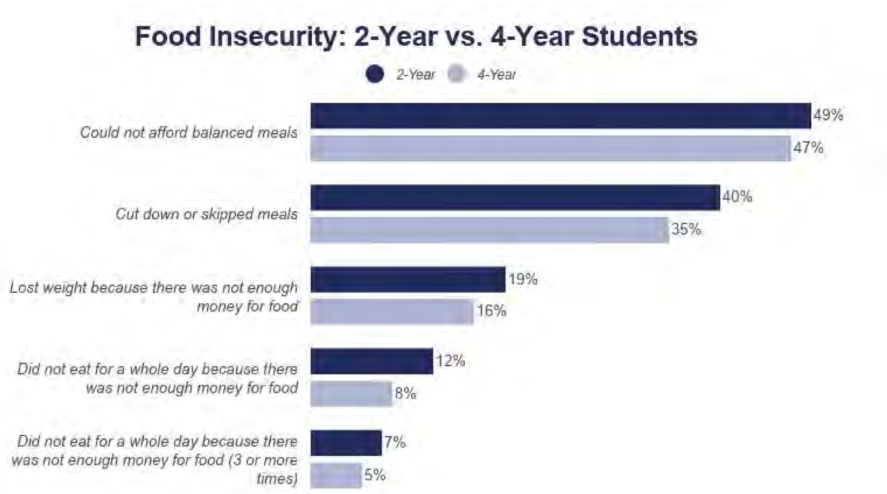
Institution	Location	Tuition
Curtis Institute of Music	Philadelphia, PA	$2,900
Grace Mission Uninversity	Fullerton, CA	$3,120
Bringham Young University-Idaho	Rexburg, ID	$4,208
Universidad Pentecostal Mizpa,	Rio Piedras, PR	$4,220
United Tribes Technical College	Bismarck, ND	$4,252
Universidad Teologica del Caribe	Trujillo Alto, PR	$4,524
Huntsville Bible College	Huntsville, AL	$4,560
Shiloh University	Kalona, IA	$5,250
Carolina College of Biblical Studies	Fayetteville, NC	$5,300
Reformed University	Lawrenceville, GA	$5,360

Average Cost of Lost Income

One of the largest expenses for students enrolled in college may be the loss of potential income in time spent studying instead of working.

- The average weekly income for a high school graduate is $781, or $40,612 per year.
- In four years, the average worker with a high school diploma earns $162,448.

- The unemployment rate among high school graduates is 9.0%, which is 26.8% higher than the national average rate.
- 17% of college students have been homeless within the last 12 months.
- 56% of students experience housing insecurity each year.
- Military veteran students are 61% more likely to experience housing insecurity and 23% more likely to experience homelessness.
- 45% of students experience frequent food insecurity.
- Over 50% of students from 2-year institutions and 44% of 4-year students worry about running out of food.
- Nearly 50% of students cannot afford balanced meals.

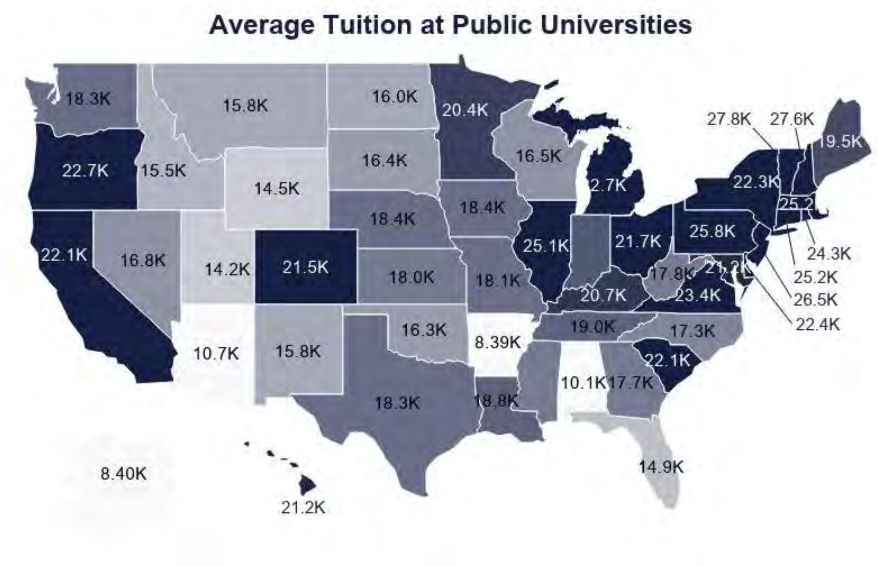


Average Cost of Borrowing for College

Most students borrow money to attend college, later repaying the principal plus interest. All of this compounds the longer the student is in school.

- The average student loan debt is $37,584.
- Each year, 34% of students borrow money to pay for college.
- The average student borrows more than $30,000 to attend school.

See our reports on Student Loan Debt and How to Pay for College to learn more.



Average College Costs by State

The average cost of in-state tuition and fees varies state-to-state and year-to-year. The range of difference is over $12,600.

- The most expensive public schools are in the Northeast, in and around what is traditionally called New England.
- Many of the most expensive private schools are also in this region.
- The average tuition among the 10 most expensive states for public university is $14,583.

- The least expensive schools are in the South and Plains regions; the least expensive private schools are also predominantly in the South.
- The average tuition among the states with the most reasonably priced public universities is $6,392.

For more information, see our report on the Average Cost of College by State.

Most to Least Expensive In-State Public University Costs

State	Tuition & Fees	Total
Vermont	$17,083	$29,665
New Hampshire	$16,679	$28,734
New Jersey	$14,360	$28,372
Massachusetts	$13,729	$27,618
Connecticut	$13,886	$27,564
Pennsylvania	$15,565	$27,403
Illinois	$14,455	$25,806
Rhode Island	$13,105	$25,592
Virginia	$13,655	$25,074
Delaware	$11,091	$24,358
Michigan	$13,315	$24,086
Arizona	$11,072	$24,016
New York	$8,467	$23,875
Oregon	$10,813	$23,582
California	$8,192	$23,037

State	Tuition & Fees	Total
South Carolina	$12,497	$22,790
Maryland	$9,714	$22,504
Ohio	$9,902	$22,388
Colorado	$9,144	$22,185
Hawaii	$10,109	$21,854
Kentucky	$10,888	$21,799
Minnesota	$11,748	$21,611
National Average	$9,349	$21,035
Alabama	$10,323	$20,497
Maine	$10,103	$20,458
Tennessee	$10,164	$20,360
Indiana	$9,268	$19,985
Washington	$7,168	$19,846
Iowa	$9,373	$19,809
Alaska	$8,297	$19,619
Nebraska	$8,582	$19,520
Louisiana	$9,571	$19,498
Kansas	$9,088	$19,101
Mississippi	$8,604	$19,080
West Virginia	$8,195	$19,034
Missouri	$8,992	$18,734
Texas	$8,598	$18,711
Georgia	$7,457	$18,554

State	Tuition & Fees	Total
Arkansas	$8,689	$18,223
Nevada	$6,023	$17,987
Wisconsin	$8,764	$17,784
North Carolina	$7,228	$17,569
North Dakota	$8,628	$17,449
South Dakota	$8,978	$17,298
Oklahoma	$8,009	$16,960
Montana	$6,967	$16,732
Idaho	$7,518	$16,338
New Mexico	$7,152	$16,193
Florida	$4,463	$15,237
Wyoming	$4,747	$14,901
Utah	$6,700	$14,619
District of Columbia	$6,020	Unavailable

Analysis: Room and Board On and Off Campus

Living expenses are the second-largest cost of college after tuition and fees. Whether it is less expensive to live on or off campus depends on local rental markets. At Stanford University – located at the center of the San Francisco and San José urban sprawl – students would pay over $24,350 for a shared, off-campus apartment; room and board on campus, however, would cost $19,796 for an academic year. Nearly *60 percent* of colleges do not accurately represent off-campus living costs. The University of California-Berkeley estimated a student would pay a median price of $14,360 per academic year (approx. 8 months) to live off-campus. In fact, it would cost a student $15,176 with a roommate in a two-bedroom apartment, adding $816 to their annual budget.

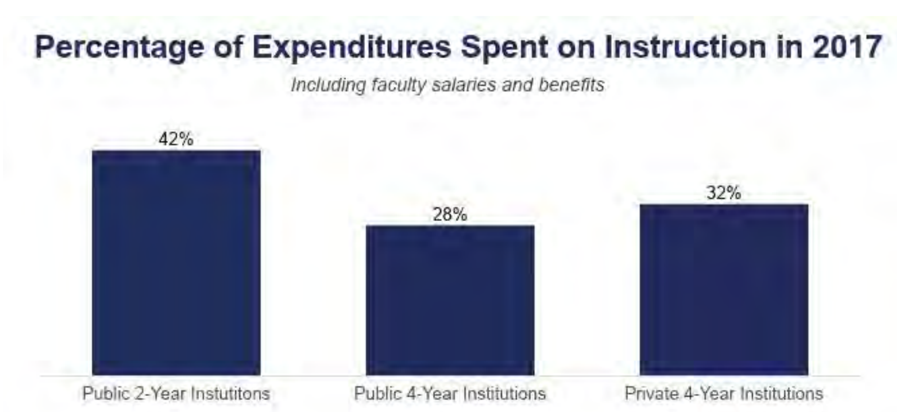
- 87% of students live off-campus.
- Room and board charges have doubled at four-year colleges even after adjusting for inflation.
- In 1980, the average cost of room and board (adjusted for inflation) was $4,800 compared to $9,798 in 2014.
- Between 2003 and 2014, increases for room charges at 4-year colleges outpaced the growth of rent prices.
- In 2003 the average college room charge was 29% under median rent.
- In 2014, the average college room charge was only 7% under median rent.

Cost of College to Taxpayers

Most public institutions receive funding from state and local governments. Colleges also receive federal funding through financial aid to students.

- In 2017, local and state governments spent approximately 10% or $297 billion on higher education compared to 1977, when these expenditures were closer to $105 billion (after adjusting for inflation).
- 98% of state funding for higher education funding and 78% of federal higher education funding went to public institutions.

- For most states, this was the third-largest expenditure, behind elementary/secondary education and public welfare.
- 88% of this spending went towards operational costs, and 12% went towards capital outlays (construction and maintenance).
- In 2017, 85% of higher education spending occurred at the state level.
- The number of FTE (full-time equivalent) students increased by 45% from 2000 to 2012.
- Revenue per FTE student from federal sources increased by 32% compared to a decline in state revenue of 37%.
- Total federal revenue increased from $43 billion to $83 billion (adjusted for inflation).
- Federal loans increased by 375% between 1990 and 2013 compared to 60% enrollment growth.
- As many as 50% of students at 2-year institutions received enough financial aid and grant money to cover tuition and fees.
- Full-time students enrolled at 2-year institutions receive an average of $4,050 in financial aid and grant money.



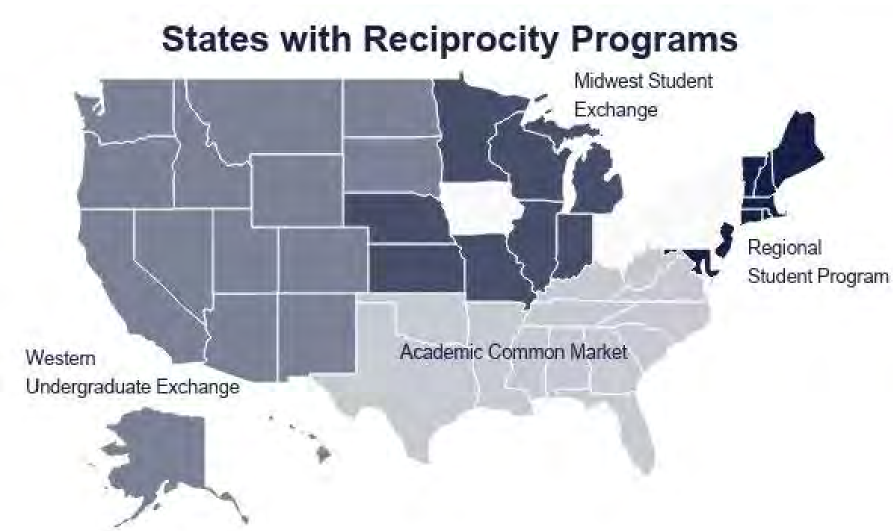
Analysis: College Cost Variations

The significant difference between in-state tuition and out-of-state tuition at a public college or university is due to regional and state reciprocity agreements. These stipulate requirements for discounted or in-state tuition rates within the regions.

- The Southern Regional Education Board's ***Academic Common Market*** allows residents of 15 member states in-state tuition at any of the participating colleges in any of the other member states—provided the out-of-state school offers a degree program the student could not get in their home state.
- In New England, the ***Regional Student Program*** includes Vermont, Connecticut, Maine, Rhode Island, Massachusetts, and New Hampshire. Like the Academic Common Market, the school must offer a degree program not available in the student's home state.
- Other states offer a reduction of the out-of-state tuition for bordering or regional states, although students are still paying a higher rate than in-state tuition. These include the ***Midwest Student Exchange Program*** and the ***Western Undergraduate Exchange Program***. These programs don't typically require students to pursue a degree that's not offered in their home state.
- Active-duty servicemembers and members of their families may qualify to receive in-state tuition, regardless of whether they are permanent residents of the state they are currently stationed in.

- Eighteen states offer in-state tuition for undocumented students, along with other scholarships and financial aid options.
- Three states (Arizona, Georgia, and Indiana) have laws that prohibit colleges in their state from offering in-state tuition to undocumented students.
- Neither Alabama nor Georgia allows undocumented students to enroll in college at all.

***Note**: North Dakota participates in both the Midwest Student Exchange AND the Western Undergraduate Exchange.*



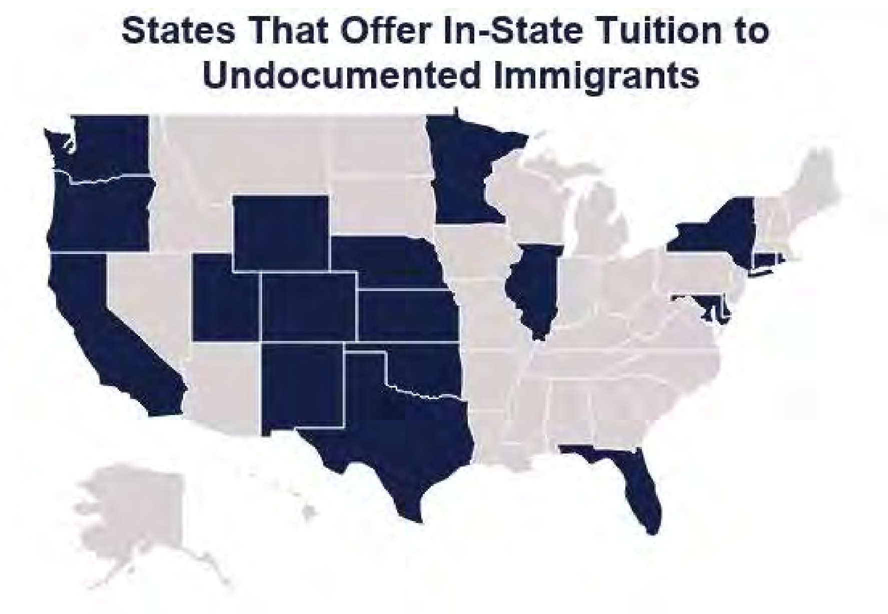
> Even with financial aid, 70% of universities are unaffordable for most working-class and middle-class students.

Analysis: Why is College So Expensive?

Some of the biggest contributors to the increasing costs of attending college include increased demand, increased availability of financial aid, and more amenities designed to attract higher-paying students.

- In 2017, there were 5.1 million more students attending college than there were in 2000.
- Increased availability of financial aid for students represents increased funding from federal sources for institutions.
- For-profit schools charge 75% more in tuition when students are eligible for federal loans.
- Students increasingly attend college away from home.
- Increasingly, colleges are spending more on administrative fees.
- Student amenities can account for as much as $3,000 per student per year.
- Between 1975 and 2005, the number of administrators had increased by 85% and administrative staffers by over 240%.
- Between 1993 and 2007, instructional spending per student increased by 39% compared to 61% increase in administrative spending per student.
- Colleges are increasingly hiring adjunct professors (non-tenure track and paid less than full-time professors) to save money.
- Between 2003 and 2013, non-tenure track faculty (adjuncts) had increased from 45% to 62% in 4-year schools.
- In 2018, 73% of all faculty positions were non-tenure track (adjuncts or yearly contracted).

- In 2016, higher-ed institutions hired 21,511 full-time tenure-track faculty compared to 30,865 non-tenure track faculty.



College Revenues & Operating Costs

The education industry is a multi-billion-dollar market, with cumulative revenues exceeding $415 billion.

- The average postsecondary institution's annual revenue is $216,917,478.
- Most postsecondary revenue (19.3%) comes from tuition and fees.
- 18.4% of revenue comes from State appropriations.
- 13.2% comes from sales and services from hospitals.
- Federal grants and contracts provide 7.6% of institutional revenue.
- Nonoperating federal grants account for 6.4% of revenue.

- Annual operating expenses average $212,174,389 or 97.8% of revenue.
- Instruction accounts for most operating costs (27.8%).
- Additional major operating costs include hospital services (13.5%), research (9.6%), institutional support (9.1%), and “other expenses and deductions” (9.2%).[1]

For more on education spending, see our report on U.S. Public Education Spending.

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3. U.S. Department of Education’s College Affordability and Transparency Center
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12 Many Colleges Miscalculate Off-Campus Housing Costs

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16 The Hechinger Report, "Are Too Few College Students Asking for Federal Aid?"

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Paying for College

A Practical Guide for Families

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PART OF A SERIES ON PAYING FOR COLLEGE

Updated 2019 Edition

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Preface

If you are reading this report, it's a safe bet that you have a son or daughter who will soon be going to college. As a result, you will likely find yourself awash in a sea of new terminology—the FAFSA form, Estimated Family Contribution, the CSS PROFILE, to name just a few—along with a dizzying array of financial aid vehicles, including grants, scholarships, work-study programs, and an assortment of federal and private loan programs. Each comes with its own unique terms and its own rules for eligibility. This report is designed to be a short, succinct guide to help parents make informed decisions about when, where, and how to assemble a financial aid package that makes sense for their family. It is aimed not at the family trying to figure out how to save for college—although some of its information will be helpful on that front—but rather at the family knocking on college's door and trying to figure out how to actually pay the bill. It seeks to help that family minimize the out-of-pocket expense of putting a student through college and reduce its reliance on student loans, which can have a damaging effect on its long-term financial well-being.

If the bad news about financing a college education is that it can be complex and time-consuming, the good news is that there are so many aid programs available that anyone willing to put in the time can almost certainly find what they need—without breaking their budget, and without jeopardizing their financial future.

A College Education: Boon and Burden

For many Americans, college has become a stepping stone to financial success. The U.S. Census Bureau estimates that students who graduate with a four-year college degree earn, on average, nearly twice as much over their lifetimes as those with only a high school diploma—$2.1 million versus $1.2 million.[1] But there's a flip side to this sunny scenario. Not every student who earns a college sheepskin moves on to a high-paying job, and even among those that do, income may be modest in the years immediately following graduation. Yet, many students leave school with onerous levels of student loan debt they must begin to repay almost right away—debt that can not only tax their ability to make ends meet as they embark on their careers, but also jeopardize their financial security far into the future. Where parents assume responsibility for a student's college loan debt, it can jeopardize their financial future as well.

These developments are not entirely surprising. College tuition costs have been outpacing the rate of inflation for decades,[2] turning a college degree into one of the biggest financial investments many families will ever make. Many types of aid are available to help defray the costs, but the process of sorting through the options and qualifying for them can be complex and confusing. The sheer variety of aid programs—grants, scholarships, government loans, work-study programs, tax credits, tax deductions—is one complicating factor. So is the matrix of variables that can impact a student's access to aid, including a family's structure, which school the student chooses to attend, how much and where the family has saved for college, and how adept the family is at working through the procedures for applying for financial aid.

Student loans, which have to be repaid, are more widely available than grants and scholarships, which do not, and hence are a convenient funding solution for many families. However, students and parents who borrow indiscriminately can jeopardize their financial security, as repaying those loans will leave less money to start or sustain a household.

This report can help families avoid these problems. It can serve as a guide for families that want to find an effective way to finance a college education for a child based on that family's own unique circumstances. It provides basic, foundational information about qualifying for undergraduate financial aid, taking out private education loans, and taking advantage of potential tax benefits. It also offers targeted advice for single and divorced parents.

The Heavy Weight of Excessive Student Loan Debt

Student loan debt has skyrocketed over the past few decades as greater numbers of students have borrowed ever greater sums to finance a college education. Seventy percent of college graduates now leave school with debt, owing an average $35,000 each.[3] That stands in sharp contrast to the experience of baby boomers, who left school owing an average of just $8,166 each in today's dollars.[4] While this paper is focused on financing an undergraduate degree, it bears noting that students who go on to earn advanced degrees are even more burdened with debt. According to *U.S. News & World Report,* students who graduated in 2012 from the 10 medical schools where graduates accumulated the most debt left with an average student loan bill in excess of $200,000. Moreover, that represented only their medical school loans.[5]

In total, outstanding student loan debt in the United States now stands at $1.49 trillion.[6] This amount has tripled over the last ten years.[7] The consequences are becoming hard to ignore. By some measures, approximately one quarter of those who owe federal student loans are estimated to be in delinquency or default.[8] There have been ripple effects on society at large, too. It has been estimated, for example, that 414,000 home sales did not happen in 2014 due to student loan debt—lost activity that could have added $83 billion to the U.S. economy.[9]

The soaring cost of a college education accounts for some of this, of course; it has been outpacing inflation for decades and has become an increasingly daunting challenge for students and their families. But research also indicates that many college students lack knowledge about student loans in general and about their own loans in particular.[10] They also tend to overestimate how much of their income they will be able to devote to loan repayment after graduation,[11] leading to false expectations about their ability to manage and pay down student debt once they start working.

A multigenerational problem

Young people aren't the only ones struggling. Increasingly, student loan debt has become a burden for parents and grandparents, too. One third of outstanding student loan debt is held by individuals 40 and older.[12] Two million Americans age 60 and older carry unpaid student loans taken out for themselves or their children.[13] Among those in the 65 to 74 age bracket, 27 percent of those loans are in default. For those 75 and older, the default rate exceeds 50 percent.[14] More than 80 percent of seniors who are in default incurred their debt for their own educations.[15]

While debt of any kind can be problematic, student loan debt can be particularly harmful for anyone struggling with their finances because it generally cannot be dismissed in bankruptcy.[16] In addition, the Department of Treasury can garnish a portion of a retiree's Social Security benefits to pay down the retiree's federal student loan debt.

Although student loan debt can have obvious negative consequences on a borrower's short-term finances—consuming capital that otherwise might be spent on housing or raising a family—it can have a dramatic impact on long-term financial security, too, by making it harder to save for retirement. This is a bigger issue for current borrowers than it was for past generations of Americans. Why? Because many employers have stopped offering employer-funded pension plans in favor of 401(k)-style plans funded primarily by employees. As a result, workers today are more likely to be responsible for their own retirement income than were their parents or grandparents. Many employers also have stopped offering retiree healthcare programs, forcing current generations to pay for their own medical expenses in retirement, too. Finally, current generations are living longer, extending the length of time they need to shoulder these extra financial burdens.[17]

Against this daunting backdrop, it has become more important than ever for people to begin saving for retirement as soon as possible. Yet in a recent survey of young workers, 41 percent of those who were carrying student loan debt said they have postponed contributing to their retirement plans.[18] Foregoing those savings, and, in many cases, the "free money" represented by matching employer contributions, is eroding their future financial security.

We can appreciate the scope of the problem by considering a hypothetical recent college graduate who earns $50,000 per year but, for the first five years of her career, foregoes contributions to her 401(k) plan at a rate of, say, 4 percent of salary. During this period she also misses out on a dollar-for-dollar employer match on those contributions. If we assume she would have earned an average annual return of 6 percent on her investment, she will have lost $245,000 of potential retirement wealth by the time she reaches the normal Social Security retirement age of 67.[19]

Like recent college graduates, parents can take a big financial hit, too, if their ability to save for retirement is diminished by the need to pay down a child's student loans. A 50-year-old who earns $100,000 annually and foregoes contributing 4 percent of salary to her retirement plan for five years while paying for college—and also foregoes a dollar-for-dollar employer match, all with the same hypothetical 6 percent annual return—would lose $85,000 in retirement savings by age 67.[20]

Parents need to be cautious about over-borrowing for their children's college costs: unmanageable student loan debt can dramatically affect their own retirement security.

Knowledge Is Power: Understanding the Financial Aid Process

While many families appreciate that too much student loan debt can be a problem, they often lack the resources to save in advance what they will need to put a child through college or to fund that education on a pay-as-you-go basis. This makes seeking financial aid a necessity. They can minimize their use of student loans, though, and their out-of-pocket expenses, by learning how the aid process works and by taking maximum advantage of aid that does not need to be repaid. They also can help themselves by learning to calculate the difference between the net price of a school their child is considering—the actual price after financial aid—and the gross or "sticker" price. They can then set realistic expectations for themselves and their student about which schools are affordable for them, and make an informed decision about which school to attend and how to pay for it.

Key terms

We'll explore the various forms of financial aid, and how to qualify for them, in more detail beginning on page 9. But first, let's define a few key terms families will encounter as they craft their college financing strategy.

Cost of Attendance (COA). Based on federal guidelines, cost of attendance is the estimated total cost to attend a college, including tuition, fees, room and board, books, and transportation for one academic year.

Free Application for Federal Student Aid (FAFSA). College-bound students and their families who wish to be considered for financial aid must file this form annually with the U.S. Department of Education's Office of Federal Student Aid. It is used to determine a student's eligibility for federal aid such as grants, work-study, and loans. In addition, many states and colleges use the FAFSA to determine eligibility for state and college-sponsored financial aid.

Grants. Grants are financial awards made by the federal government, colleges, and other private institutions to help students cover education expenses. They are more valuable than loans because they do not need to be paid back. Grants often are awarded based on financial need. Of the $239 billion in financial aid issued during the 2017-2018 school year, federal grants accounted for $41 billion. Colleges, states, employers, and other private organizations issued another $87 billion in grants.[21]

Scholarships. Similar to grants, scholarships do not need to be paid back. Many are awarded based on a student's academic merit or a specific skill they have exhibited, including proficiency in a sport they intend to pursue in college. However, some scholarships, like most grants, are based on financial need. Scholarships can be awarded by colleges or other private institutions.

Loans. Loans are made by the federal government and private financial institutions and must be paid back.

Work-study. Work-study programs provide part-time employment, with pay, to qualifying students. The programs are sponsored by the federal government as well as some states and institutions. To be eligible, students and their families must complete the FAFSA form. Both loans and work-study programs are referred to as "self-help aid" since the money awarded needs to be repaid or earned via work. By contrast, scholarships and grants, which do not need to be repaid, are sometimes referred to as "gift aid."

Need-based aid. This is any type of aid that is based on a family's finances; the lower the family's income and the smaller its assets, the more likely a student will qualify. Need-based aid is typically formula-driven and often takes the form of a grant, low-interest loan, or work-study program. It can be awarded by the government, colleges or private foundations.[22]

Merit-based aid. Merit-based aid can be based on academic, athletic, or artistic talent, or on other skills, interests, or abilities. It may take the form of scholarships or grants. Wealthier families often find that their children do not qualify for need-based financial aid, but may qualify for merit aid—if the school they are targeting offers it.

Estimated Family Contribution (EFC). The Estimated Family Contribution is a defined measure of a family's financial strength, primarily based on income and assets. It is used to determine a student's eligibility for need-based aid. The federal government's method of calculating EFC is the most widely used approach, but some colleges that use the Institutional Methodology (see page 7) employ a different formula.

Net price. This is the estimated cost of attending a college for a single year after need- and merit-based scholarships and grants are considered. It is not adjusted to reflect loans, since those must be repaid.[23]

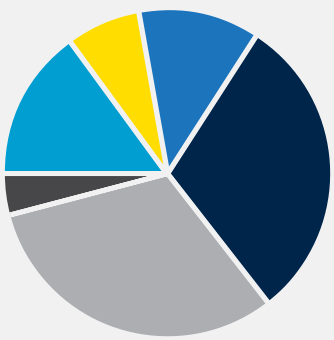
Award letters. Award letters, issued by colleges, outline the financial aid for which a student qualifies. Colleges send award letters to students and their families after accepting students for admittance. The letters typically include federal loan amounts that have to be repaid, as well as grants, scholarships, and work-study offers.

How Families Pay for College Today

The typical family today relies on a web of resources to pay for college. Fifteen percent of the cost is funded by student borrowing, 7 percent by parent borrowing, 12 percent from student income and savings, 30 percent from parent income and savings, 31 percent by grants and scholarships, and 4 percent from contributions from other relatives.[24]

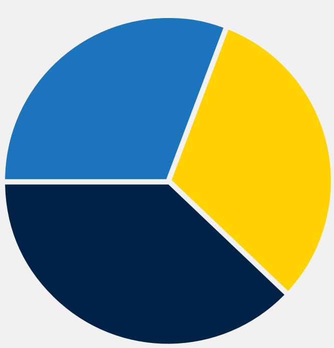
Chart View | Table View

How Families Pay for College



In 31 percent of families, the student provides all funds not covered by financial aid.[25] In another 31 percent of families, parents pay enough of the costs such that the student pays nothing, either out-of-pocket or borrowed.[26]

Chart View | Table View



Qualifying for Need-Based Aid: The Federal Methodology and FAFSA

As noted earlier, need-based financial aid is awarded based on a family's income and assets. It takes the form of grants, loans, and work-study programs. Colleges typically employ one of two methodologies for calculating whether a student qualifies for need-based aid: the Federal Methodology or the Institutional Methodology. This section of the paper highlights the workings of the Federal Methodology, which is used by the federal government, all public colleges, and many private colleges. The next section is devoted to the Institutional Methodology, which is used by some private schools to determine eligibility for non-governmental financial aid.

The FAFSA

Qualifying for financial aid under the Federal Methodology always begins with completing and filing the FAFSA—the Free Application for Federal Student Aid. The form requires financial information from both the student and at least one custodial parent, and must be filed for each year the student will be attending college. While awaiting the results of their FAFSA filing, students can get an early estimate of how much federal aid they may qualify for by completing another online form, the *FAFSA4Caster*, at the website of the U.S. Department of Education's Office of Federal Student Aid.[27]

Families should file the FAFSA as soon as possible after October 1 of the year prior to the academic year in which the student will enroll in college, since some colleges award aid on a first-come, first-served basis—and because missing the final deadline, which is typically June 30 of the award year, means foregoing access to any form of federal aid that year.[28] For high school seniors, this means the FAFSA should be filed, ideally, in October or November of their senior year in high school. The October 1st date is earlier than in years past. Families can now use the IRS Data Retrieval Tool to transfer prior year income and tax information directly from the IRS to their FAFSA.

The FAFSA can be completed either online or by mail. To complete the form online, both the student and at least one custodial parent must first obtain a FAFSA ID at the Department of Education website. These IDs serve as electronic signatures for the FAFSA. If the student's parents are divorced or separated, the government considers the custodial parent to be the one with whom the child lived the most during the prior 12 months, and only that parent is required to complete the FAFSA.

When completing the FAFSA, the student will indicate which college or colleges he or she is considering attending. Those schools will be notified of the student's interest, and receive information from the student's FAFSA, via an Institutional Student Information Record sent out by the Office of Federal

Student Aid. That office will send the student a separate report—the Student Aid Report—that includes the student's Estimated Family Contribution to financial aid. Contrary to what the name implies, the EFC is not the amount of money the student or the student's family will have to pay for college. Rather, it is a measure of the family's financial strength, primarily based on its income and assets, expressed as a dollar amount for a single year of attending college. This figure is calculated according to a formula established by law, and it is used by schools to determine a student's eligibility for federal aid. (See "Understanding the Net Price of College" on page 8.)

The Student Aid Report is generated within three to five days if the FAFSA was filed electronically, and within seven to 10 days if it was submitted on paper. If a student lists a valid email address when completing the FAFSA, he or she will receive instructions via email on how to access an online copy of the report.[29]

The FAFSA filing process is repeated each year to qualify for aid for the following school year. Students who applied for aid in one year may be eligible to reapply the next using a renewal FAFSA available online.[30]

For students and families who need help completing the FAFSA or understanding how federal education aid works, the U.S. Department of Education's Federal Student Aid Information Center sponsors a toll-free hotline at 1-800-4-FED-AID (1-800-433-3243).

Key considerations when completing the FAFSA

Many parents will find it beneficial to understand how the Federal Methodology formula works before a student files the FAFSA, as this may help them take advantage of strategies that increase the likelihood of qualifying for federal aid. Such strategies can include postponing or shifting discretionary income, choosing the most appropriate college savings vehicle, or rethinking which parent will serve as the custodial parent if the parents are divorced. Here are the key considerations:

Income: Since the FAFSA is filed as early as October 1st, the prior calendar year is used as the base year for income purposes when calculating a student's eligibility for aid. For example, a high school student applying for college for the 2020-2021 year would typically complete the FAFSA in October or November of 2018, when he or she is a senior in high school. This means the base year for FAFSA and income purposes would be 2017. In this example, parents and students who have discretion over when they take income—in the form of bonuses, for example, or by selling profitable investments—may have wanted to avoid taking that income in 2017, as it could decrease the chance of being awarded need-based aid.

Under the Federal Methodology, students' and parents' actual income is adjusted for various allowances to arrive at their "available income"—the amount that is considered in determining aid eligibility under the EFC formula. For students, 50 percent of income above a certain threshold—the "income protection allowance"—counts toward available income. That income protection allowance increases each year; for the 2019-2020 school year, it is $6,660.[31] Here's an example. A student who had income of, say, $9,000 in 2017 would subtract $6,660 from that sum and then multiply the result by 50 percent to determine their available income. In this case, it would be $1,170. (Actual income of $9,000 less the $6,660 income protection allowance is $2,340, and 50 percent of $2,340 is $1,170.)

For parents, the income protection allowance varies based on the number of family members in the household and the number of those people who are currently college students. In the 2019-2020 school year, for example, a parent with one college student and five members in the household would have an income protection allowance of $33,720.[32] Parents also may be entitled to an employment expense allowance that reduces their available income. For one-parent families as well as two-parent families with two income earners, the employment expense allowance is the lesser of $4,000 or 35 percent of income.[33] In addition, allowances are permitted for Social Security taxes, federal income taxes, and state and other taxes.[34]

For parental income, the rate that available income counts in the aid formula is not fixed at 50 percent, but varies according to a sliding scale. Figure 1 illustrates a hypothetical family's available income calculation.[35]

Figure 1
An example: Calculating parents' "available income" for federal aid purposes

Parents' adjusted gross income	**$60,000**
U.S. income tax	–$5,000
State and other taxes	–$4,950
Social Security tax	–$4,590
Income Protection Allowance	–$33,720
Employment expense allowance	–$4,000
Total allowances	**–$52,260**
Available Income (Income – Allowances)	**$7,740**
Rate at which Parents' Income Counts in EFC	**X 0.22**
Parents' Contribution from Income in EFC	**$1,702**

Note: Example ignores parents' assets. Also, where parental income is less than $25,000, and the parents are not required to file a tax return or can file using either form 1040A or 1040EZ, the EFC is $0.[36]

Assets: The EFC calculation counts 20 percent of student assets and anywhere between 2.64 percent and 5.64 percent of parent assets depending on the type of asset and available income.[37] In addition, a portion of the parents' assets, typically between $17,000 and $30,000 for two-parent families, is sheltered from the calculation based on the age of the older parent. This amount is referred to as the "asset protection allowance." Finally, if parental assets are less than $50,000 and all family members are eligible to file their annual tax returns using either IRS Form 1040A or 1040EZ—or do not need to file a federal tax return at all—the formula disregards assets completely.

Because parent assets are counted less than student assets, some families may wish to hold savings earmarked for college in a parent's name rather than a child's name. Or, they may wish to shelter those assets in a qualified college savings vehicle, such as a 529 plan, which will have a minimal impact on the EFC and financial aid awards.

Parents will want to note that equity in the family home does not count against federal aid eligibility, nor do assets in qualified retirement savings plans such as 401(k)s or Individual Retirement Accounts. However, cash in a savings account typically does count. Accordingly, parents who are considering taking out a home equity loan and parking the proceeds in a bank account to pay for college at a later date may want to consider a home equity line of credit instead. With a line of credit, the necessary cash is borrowed only when and as needed, and only then counts toward the family's assets.

Here are several key points relating to assets held in college savings vehicles:

529 Plans

- Up to 5.64 percent of assets held in parent-owned 529 plans count toward the financial aid formula, but withdrawals from those plans do not count as income to either the parent or student when filing the FAFSA.
- Student-owned 529 plans are considered an asset of the parent and are treated as such for aid calculations.
- Assets in grandparent-owned 529 plans are not counted in the aid calculation, but distributions from those plans count as untaxed income for the student. As such, they could reduce aid by 50 percent of the amount withdrawn. To minimize the impact, grandparents can transfer ownership of a 529 plan to a parent, if the plan allows it, or withdraw assets for college expenses after the final FAFSA has been filed in the student's junior year of college.

Coverdell Education Savings Accounts

- Like 529 plans, Coverdell Education Savings Accounts are treated as an asset of the parent, and up to 5.64 percent of the assets in these accounts are counted in the financial aid formula.

Uniform Transfer to Minors Act (UTMA) and Uniform Gift to Minors Act (UGMA) custodial accounts (non-529 plan)

- These accounts are considered completed gifts to the student, and therefore 20 percent of the assets in these accounts are counted in the determination of financial aid. This means they count more severely against aid than 529 plan and Coverdell accounts.[38]
- Income from UTMA and UGMA accounts also may increase a student's annual income.

Custodial 529 plans resulting from an asset transfer from a UTMA or UGMA custodial account

- These assets count as a parent asset, similar to assets in a parent-owned 529 plan. Up to 5.64 percent of the total value of the account can be included in the aid calculation, but withdrawals do not count as income to the student.

Individual Development Accounts

- These special savings accounts are designed for low- and moderate-income families whereby each dollar saved receives a corresponding match from a government agency or private foundation.
- These assets count on a sliding scale from 2.64 percent to 5.64 percent of the account value.

Qualified retirement accounts such as IRAs and 401(k) plans

- Account values in either of these accounts do not count as assets in the federal EFC formula.
- IRA withdrawals can be made without paying a 10 percent early withdrawal tax if used for qualified educational expenses (albeit with federal and state income taxes due), but count as income when the FAFSA is filed in the following year. As a result, financial aid and/or tax credits may be lost.
- Parents should remember that withdrawals from IRAs and 401(k) plans to fund college expenses will reduce the funds available to them in retirement and may have a severe impact on their financial security after they stop working.

Qualifying for Aid at Selected Private Colleges

Many private colleges award only need-based financial aid. A student who does not qualify for this type of aid should expect to pay full cost to attend one of these schools. While their parents will likely qualify for federal and private loans, those loans typically will need to be repaid in full. However, as discussed in Appendix B, the federal government does provide limited opportunities for loan forgiveness.

Qualifying for Need-Based Aid: The Institutional Methodology

More than 200 private colleges use the Institutional Methodology to determine whether students are eligible for non-governmental financial aid they issue directly, including grants, loans, and scholarships.[39] In addition, 14 percent of public colleges report they use the Institutional Methodology together with the Federal Methodology to determine aid.[40] The Institutional Methodology gives colleges some flexibility in how they treat certain income and assets, which means that not all colleges using this methodology will award financial aid the same way.

Students who want to attend a school that uses the Institutional Methodology must complete not only the FAFSA but also the more comprehensive College Scholarship Service Profile, sometimes referred to as the CSS PROFILE or simply the PROFILE. As a result, students applying to these schools will have their federal financial aid determined by the Federal Methodology (based on the FAFSA), and their university-awarded financial aid determined by the Institutional Methodology (based on the CSS PROFILE). Unlike the FAFSA, the CSS PROFILE may require financial information from non-custodial parents in cases where the parents are divorced or separated.[41] Also unlike the FAFSA, there is a fee—currently $25—to file the CSS PROFILE, which covers a report to one school. Additional reports are $16 each.[42] Students may file the CSS PROFILE as early as October 1 of the year prior to the start of the college school year, but are advised to file no later than two weeks before the earliest priority filing date provided by their college or program.[43]

Some students may find they qualify for less college-awarded financial aid under the Institutional Methodology than the Federal Methodology.

Some colleges using the Institutional Methodology also require students to complete the school's own financial aid form in addition to the CSS PROFILE and the FAFSA—and may require copies of both student and parent federal tax returns.

In some families, students may find that they qualify for less college-awarded financial aid under the Institutional Methodology, using the CSS PROFILE, than under the Federal Methodology using the FAFSA. Families can see which schools require the CSS PROFILE, as well as those that also require a Non-Custodial CSS PROFILE, by visiting the College Board website at https://student.collegeboard.org.

Merit-Based Aid: Rewards for Academic, Athletic, Artistic, or Other Talent

Merit-based financial aid is offered by schools that wish to provide financial assistance based on a student's academic, athletic, or other talents without regard to need. Athletic scholarships are perhaps the best-known example of the type. *(For more detail on scholarships, see "Types of Financial Aid: A Deeper Dive," beginning on page 9.)*

If merit-based aid is important to students and their families, they should determine in advance which schools offer it and focus their application efforts on them. Otherwise, the student could win admittance to his or her "dream school," only to find that the lack of merit aid makes the school unaffordable for them. Parents can find out which schools provide merit-based aid by visiting CollegeData.com and using its College Match application.[44]

Some colleges will utilize "preferential packaging," also known as differential packaging, in awarding merit aid. With preferential packaging, colleges change the type of aid, offering a higher level of gift aid (grants and/or scholarships) than they might typically offer, based on the desirability of the student. A college may have a higher level of interest in a student based on factors that include: alumni relationship, academic merit, ethnicity, gender, geographic diversity, first generation status, athletic ability, other special talents such as musical or artistic ability, or likelihood a student will enroll.[45] According to the National Association for College Admission Counseling, 15 percent of public colleges and 63 percent of private colleges utilize preferential packaging.[46]

Understanding the Net Price of College

As noted earlier, the EFC, or Estimated Family Contribution, is a measure of a family's ability to pay for college.[47] It is expressed as a dollar amount but does not represent the actual amount of money a family will pay for a student to attend college.[48] The EFC is calculated according to an established formula that looks at the family's income, assets, and other benefits, including Social Security or unemployment, as well as the size of the family and the number of family members attending college at the time the number is calculated.[49] The Federal Methodology and the Institutional Methodology will typically yield different EFC numbers. As mentioned earlier, the Federal Methodology is always used for federally awarded financial aid. In addition, many schools use the Federal Methodology to award their own institutionally funded financial aid. Students that apply to schools that use the Institutional Methodology will have their federally awarded financial aid eligibility determined by the Federal Methodology and their college-awarded aid eligibility determined by the Institutional Methodology. Schools express that eligibility in the form of a student's "Demonstrated Financial Need," which is calculated as follows:

Cost of Attendance (COA)
– Expected Family Contribution (EFC)

Demonstrated Financial Need

Often, colleges will offer financial aid packages that meet less than 100 percent of a family's Demonstrated Financial Need. If the COA is $50,000, for example, and the school's policy is to try to meet 85 percent of a student's Demonstrated Financial Need, it might put together a freshman-year aid package that looks like the one shown in Figure 2.

Figure 2
Example: Calculating the Net Price to attend college

A) Cost of Attendance (Gross Cost)	$50,000
B) Expected Family Contribution	$20,000
C) Demonstrated Financial Need (A – B)	$30,000
D) Financial Aid (C X 85%)	$25,500
E) Net Cost (A – D)	$24,500*

*Amount paid directly by student and/or student's family.

Keep in mind that most financial aid awards include a federal direct loan that will need to be repaid. As a result, the net price to attend a school, after repayment of the loan, may be higher than it first appears. In the example above, factoring in repayment of a student loan would make the final net price more than $24,500. The financial aid package also may include a work-study program, which will require that the student work part-time to help cover some of the cost of the student's education.

The term "gapping" refers to admitting students but not meeting their full financial need. While most schools gap all categories of students, private schools are most likely to gap less academically talented students.[50]

Net price calculators

In the initial stages of researching schools, students and parents can see what percentage of their student's Demonstrated Financial Need different colleges have provided in the past, on average, by using the College Match tool found at the CollegeData.com website. Before a student actually files for aid and applies to schools, parents also can compare possible financial aid packages at specific schools by using each school's online Net Price Calculator, which all schools have been required to provide since 2011. While colleges are allowed to use a Net Price Calculator template provided by the U.S. Department of Education, many have created their own calculators that reflect their policies and more accurately estimate the amount of financial aid they may be able to offer, including, in some cases, merit-based aid. Estimates for merit-based aid are based in part on user input of a student's grade point average, SAT score and/or ACT score.

Because colleges typically mail out financial aid award letters around April of the student's senior year of high school, parents also can compare those award letters before making a final decision about which school the student will attend. During this analysis, families will want to be sure to distinguish between gift aid such as scholarships and grants, and self-help aid such as loans and work-study.

Types of Financial Aid: A Deeper Dive

As noted earlier, the financial aid menu is long and diverse, encompassing gift aid and self-help aid in a variety of forms, each with its own set of limitations. This section of the paper provides additional details on the most common types of aid, including grants, work-study awards, federal loans, private loans, and scholarships.

Grants

Grants are offered by the federal government, colleges, and other institutions. They do not need to be repaid. Among the most common grants offered by the government are Pell Grants and Federal Supplemental Educational Opportunity Grants. Pell Grants are earmarked for low-income families. Their maximum size increases each year; for the 2019-2020 academic year the limit is $6,195. Students can receive Pell Grants for a maximum of 12 semesters. Federal Supplemental Educational Opportunity Grants provide additional need-based aid to supplement Pell Grants. The maximum award is $4,000 per year and is based on the college's award policy. Grants offered by colleges themselves can be need-based or merit-based. Some students are able to secure multiple grants from different sources.

Work-Study

Work-study awards provide part-time jobs to students, allowing them to earn money that can be applied to their education expenses. The Federal Work Study (FWS) program is available to need-based students. While funded by both the federal government and colleges, the FWS program is administered by participating schools. Students and their families should note that a work-study award does not guarantee a job, nor does it guarantee that any job assigned will yield earnings equal to the amount listed in the financial aid package. Students and families also should know that many colleges offer employment opportunities outside the FWS program, including jobs in individual academic departments.

Federal Loans

Since 2010, all new federal loans, except for Federal Perkins Loans, have been issued through the U.S. Department of Education under the Direct Loan Program. Federal loans typically offer better terms than private loans, including lower interest rates, loan consolidation opportunities, and flexible repayment plans. There are five types of federal loans: Direct Subsidized, Direct Unsubsidized, Federal Perkins, Direct PLUS, and Direct Consolidation.[51] Here's a look at each in more detail:

Direct Subsidized Loans. These loans are subsidized in the sense that students pay no interest on the loans while attending college (the deferment period) or for six months after graduation (the grace period). To receive a Direct Subsidized Loan, students must qualify based on financial need. The annual subsidized loan maximum is $3,500 for freshmen, $4,500 for sophomores, and $5,500 for juniors and seniors. The cumulative maximum that can be borrowed over the course of a student's undergraduate studies is $23,000. Direct Subsidized Loans can be taken over a period of more than four years, but may not exceed the cumulative maximum amount. To receive a Direct Subsidized Loan once offered, borrowers must complete a Master Promissory Note (MPN) that can be submitted online.

Direct Unsubsidized Loans. These loans charge borrowers a fixed rate of interest beginning when the loan is disbursed. Borrowers can choose to let the interest accrue while in school and during grace periods, but the accrued interest is capitalized, meaning it is added to the loan's principal. Student borrowers do not need to demonstrate financial need to receive a Direct Unsubsidized Loan. The maximum amount they can borrow is determined in part by the amount of any Direct Subsidized Loans they have taken out. The combined limit for Direct Subsidized Loans and Direct Unsubsidized Loans is $5,500 for freshmen, $6,500 for sophomores, $7,500 for juniors, and $7,500 for seniors. The combined cumulative amount that can be borrowed during a student's undergraduate years is $31,000.

Federal Perkins Loans. Perkins loans are part of the federal loan program, but the student's college is the lender. Perkins loans are only for students with exceptional financial need. Interest is subsidized, meaning it is not charged while the student is in college. The interest rate is fixed at 5 percent, and the maximum that can be borrowed is $5,500 per year. The Perkins Loan Program no longer offers new loans as of the 2017-2018 academic year.

Direct PLUS Loans (also known as Parent PLUS Loans). Only parents of college students can take out PLUS loans. Borrowers must not have a poor credit history, which is verified by a credit check, but there is no requirement to demonstrate financial need. The yearly limit that can be borrowed is the Cost of Attendance less any other financial aid that has been awarded. Direct PLUS Loans are not subsidized, and therefore accrue interest from the time they are disbursed. Interest is accumulated at a fixed rate that can vary depending upon when the loan was initially disbursed. Loans originating between July 1, 2019, and June 30, 2020, carry a 7.08 percent interest rate.

Direct Consolidation Loans. With a Direct Consolidation Loan, a variety of eligible federal student loans, including loans of different types with different terms and repayment schedules, can be replaced by a new loan managed by a single loan servicer.[52] Because the interest rate on a Direct Consolidation Loan may be lower than the rate charged on one or more of the existing loans, and because the time for repayment may be extended, a Direct Consolidation Loan may make loan repayment more manageable for the borrower.

Several legislative and regulatory developments since 2007 have made federal loans more affordable for graduating students who will not earn high salaries, at least early in their careers. *(See Appendix B, "Repayment Options for Federal Loans.")*

In addition, the College Cost Reduction and Access Act of 2007 discharges any remaining student loan debt after 10 years of full-time employment in public service. Under the act's Public Service Loan Forgiveness Program, eligible loans include federal loans such as, Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans. Organizations that meet the definition of public service employers include government organizations, not-for-profits, and other private for-profit companies that provide certain public services.

Private Loans

Prior to 2010, private lenders processed and disbursed federal loans, but since then all new federal loans (other than Perkins Loans, where the lender is the college) have been issued by the U.S. Department of Education. As a result, new private student loans are even less common today than they were five years ago, accounting for only about 10 percent to 15 percent of outstanding student loan debt.[53] Most families use private loans primarily to fill any financing gaps that may remain after federal loans are exhausted.

Banks and credit unions are the most common private lenders. They qualify borrowers, and set loan terms, based on the borrower's credit worthiness.

Private loans offer many repayment options, including deferment of interest while the student is in school.

Unlike Federal Direct Loans, which forgive outstanding loan debt in the event of a student's death, either before or after graduation, private loans have no such feature. Parents who co-sign large private loans for a child should consider purchasing life insurance on the child in an amount sufficient to repay the loan should the child die prematurely.

Scholarships

Many schools and private foundations offer scholarships. Most are awarded based on a student's specific skills or interests, although some are based on need.

Athletic scholarships – Division I and Division II schools. Both Division I and Division II schools can provide athletic scholarships, although scholarship limits are lower for many sports at Division II schools. Also, with non-revenue generating sports such as men's lacrosse (which allows up to 12.6 scholarships per team at the Division I level), scholarships are frequently divided up and parceled out among many different players.

Athletic scholarships – Division III schools. Division III schools do not offer athletic scholarships, but may offer students with specific skills an admissions advantage.

Non-athletic scholarships. Many private schools provide scholarships or grants to students who are majoring or specializing in certain areas, such as creative writing. Families may find it beneficial to conduct online research to see whether the schools a student is considering offer non-athletic scholarships for which the student might qualify. High school guidance counselors and the financial aid offices of colleges can be useful sources of information.

It is not uncommon for ambitious students to apply for and win multiple scholarships, some of which may be small individually, but collectively can pay a meaningful share of college expenses.

Families should note that some scholarships may be renewable for each of a student's four years of college, although the student may need to maintain a minimum grade point average or meet other standards in order to renew.

Private Scholarships. A number of private scholarships not associated with a specific college are available for students who qualify. Unfortunately, private scholarships often reduce the amount of institutional aid offered by a college, and thus may not lower the net cost to the student. Families can conduct a search for available scholarships at the College Board website at Bigfuture.collegeboard.org.

Tax Credits and Deductions

In addition to providing financial aid awards, the federal government offers a variety of tax credits and deductions to help middle- and low-income Americans manage college costs. Of the two types of help, tax credits are the most valuable, providing a dollar-for-dollar reduction in the taxes paid by parents of dependent students. Tax deductions, by contrast, simply reduce the amount of income that is taxed, and their value is dependent upon the taxpayer's federal income tax bracket. For someone in the 22 percent tax bracket, a $4,000 tax credit would reduce their tax bill by $4,000. A tax deduction of the same size would only reduce their bill by $1,000.

Parents can claim either a tax credit or a tax deduction—as long as Congress continues to make them available—for qualified education expenses in a given year, but cannot claim both for the same expenses. Nor can they claim credits or deductions for expenses covered by grants, scholarships, or withdrawals from 529 college savings plans.

Two types of tax credits

There are two types of tax credits: The American Opportunity Tax Credit and the Lifetime Learning Credit. Parents can use only one of the credits in any one year for any one student. However, parents with more than one student attending college in the same year can claim the credits on a per-student, per-year basis. In other words, they may choose to use the same credit for both students, or they can use one credit for one student and the other credit for the other student.[54]

To reiterate, if there is a choice between taking a tax deduction or a tax credit, the tax credit is preferable. A deduction simply lowers the amount of income that is taxed, while a credit directly reduces the taxes owed.

The American Opportunity Tax Credit

The American Opportunity Tax Credit was made permanent by the Consolidated Appropriations Act, 2016.[55] It can be used to cover 100 percent of the first $2,000 of tuition and other qualified education expenses, and 25 percent of the next $2,000, up to a total credit of $2,500.[56] If the credit reduces the parents' tax bill to zero, the parents can have 40 percent of any remaining amount of the credit, up to $1,000, refunded to them.[57]

The American Opportunity Tax Credit can be used in each of the first four years a student is in college. The full credit is available to single taxpayers with a modified adjusted gross income (MAGI) of up to $80,000, and to married couples filing jointly with a MAGI of up to $160,000. (For most taxpayers, MAGI is the "adjusted gross income" shown on line 22 of their Form 1040A federal tax return, or on line 38 of their Form 1040 return.[58]) Partial credits are available for singles earning between $80,000 and $90,000, and for married couples earning between $160,000 and $180,000. The credit is phased out completely, and thus not available, for singles earning above $90,000 and for married couples earning more than $180,000.

The Lifetime Learning Credit

The Lifetime Learning Credit covers 20 percent of the first $10,000 of tuition and other qualified education expenses annually, for a maximum credit of $2,000.[59] There is no limit to the number of years the Lifetime Learning Credit can be used for a given student. The full credit is available for singles with a MAGI of up to $57,000 (in 2018), while a partial credit is available to those earning between $57,000 and $67,000. For married couples, the full credit is available to those filing a joint return with a MAGI of up to $114,000, while a partial credit is available to couples earning between $114,000 and $134,000.[60]

Parents who plan on using either type of educational tax credit should be careful about taking any ordinary income whose timing they can control, such as a withdrawal from an Individual Retirement Account, beginning in the year before their child starts college through the filing of their final FAFSA. Large increases in ordinary income could put them over the threshold for qualifying for a credit.

Tax deductions

The tuition and fees deduction is no longer available for tax years after 2017.[61] A tax deduction is still available for interest paid on student loans. However, taxpayers cannot claim deductions for expenses already covered by a tax credit.

Both parents and students may claim a tax deduction for student loan interest they have paid, up to a maximum of $2,500 of interest annually. Interest is deductible only by the person who took out the loan. It is fully deductible, up to the $2,500 annual limit, for borrowers with a MAGI of up to $65,000 if they are filing taxes as a single person or head of household. It is partially deductible if their MAGI is between $65,000 and $80,000.[62] For married couples filing a joint return, the full deduction is available to those with a MAGI under $130,000 and partially deductible for those with a MAGI between $130,000 and $160,000.[63] Student loan interest can be deducted for the life of the loan.

To reiterate, if there is a choice between taking a tax deduction or a tax credit, the tax credit is preferable. A deduction simply lowers the amount of income that is taxed, while a credit directly reduces the taxes owed.

Considerations for Divorced Parents

Not surprisingly, financing a child's college education can become more complicated when parents are divorced. Parents must figure out who will pay for what, and how much. Some colleges treat divorced parents more favorably than others when determining eligibility for financial aid. Also, some states have stricter rules than others regarding a parent's obligation to contribute toward a child's college expenses. In many states, parents are legally expected to pay only as much as the state's flagship university charges, even if the child chooses a more expensive private school. (In New Jersey, this is known as the Rutgers Rule; in New York, the SUNY Cap Rule.)

A divorce settlement should be clear and concise in spelling out parents' obligations for college expenses. Among other things, it should specify:

- Which college expenses will be covered.
- The percentage contribution each parent will make to those expenses.
- How college expenses will be capped (spelling out, for example, whether expenses will be covered for public schools or private schools).
- Whether a 529 college savings plan should be established and funded.[64]
- How much life insurance is needed on each parent to ensure there will be enough money to pay college expenses in the event of a parent's premature death.

Divorce and 529 Plan assets

Parents should make sure any assets accumulated in a 529 college savings plan during a marriage are clearly identified as joint marital assets. Then, unless clearly indicated otherwise in a settlement agreement, 529 plan assets accumulated during a marriage should not be used to fulfill a non-custodial parent's obligation to pay for college, since those assets belong to the custodial parent as well.

Divorce and the Federal versus Institutional Methodology

Parents who are already divorced and have a child approaching college age may be pleased to learn that certain colleges make it easier for students to qualify for financial aid if their parents are divorced, since the schools consider only one parent's income and assets when assessing need. In fact, it is quite common for students to receive more financial aid if parents are divorced.

Schools that count only one parent include any schools using the Federal Methodology, which requires filling out the FAFSA. On that form, only the custodial parent will need to supply financial information. The custodial parent is the parent the child resided with for the majority of the year prior to starting school, which may or may not be the parent claiming the child as a dependent for income tax purposes.

In contrast, many colleges that use the Institutional Methodology to calculate aid consider the income and assets of both the custodial and the non-custodial parent. Also, the CSS PROFILE that students must complete at schools using this methodology asks whether students will receive money from other relatives to help pay for tuition.

Divorced parents who wish to have only the custodial parent's income and assets considered for financial aid purposes should have their children focus on colleges that require only the FAFSA, or the FAFSA along with a CSS PROFILE from only the custodial parent. A list showing which schools require the non-custodial parent to complete a CSS PROFILE and which do not can be found at collegeboard.org, the website of the College Board, the nonprofit corporation that developed the CSS PROFILE.[65]

Divorce and child support

Child support is reported by the custodial parent and is factored into the aid formula. In addition, if the non-custodial parent contributes to the educational expenses of the child, the following year's FAFSA will need to reflect those payments as non-taxable income to the child. Thus, the child's financial aid could be affected in subsequent years. This also could be the case in situations where the non-custodial parent owns a 529 plan and makes a withdrawal from it to pay for the child's college expenses. The 529 plan would not count in the Federal

Methodology formula since it is not owned by the custodial parent, but the withdrawal amount would be counted in the subsequent year as income to the student.

Here's an example of how all this might work. Jud earns $100,000 a year and his divorced spouse Leslie earns $40,000. Their daughter, Margie, lives with Leslie. According to the terms of their divorce settlement, Jud will contribute $5,000 per year of his income to Margie's college costs, and Leslie will contribute $2,000. The balance will be paid from student loans and from $80,000 in a 529 plan owned by Leslie. If Jud and Leslie were married, their combined income of $140,000 might disqualify Margie from receiving financial aid. But because they are divorced, and because Margie's school uses the Federal Methodology to determine eligibility for aid, she may qualify since only her mother's income, plus any alimony and child support she receives, will be considered in the aid formula. (As mentioned earlier, only a maximum 5.64 percent of assets in a 529 plan are counted in the aid formula, and they are counted as an asset of the custodial parent.) Note that in subsequent years of filing the FAFSA, Jud's $5,000 contribution to Margie's college expenses would be considered non-taxable income to her.

Divorce and remarriage

A divorced parent who is relying on financial aid to help a child attend college, and is considering getting remarried, should remember that the new spouse's income will be included in the financial aid formula. The only way the new spouse's income will not be considered is if the marriage occurs after the filing of any FAFSA, CSS PROFILE, or other required financial aid forms during the student's junior year of college.

Note that for colleges requiring submission of a non-custodial CSS PROFILE, up to four parents' incomes may be included in the financial aid calculation—the income of both of the original parents and the income of their new spouses if both have remarried.

Divorce and tax credits

Divorced parents may find that they can maximize the value of available tax credits if they are willing to be flexible in deciding which parent claims a child as a dependent for tax purposes. Because of the applicable income limits, a higher-earning parent may not be able to benefit from a tax credit but a lower-earning spouse may. If divorced parents with more than one child are willing to negotiate, they may be able to work out a strategy in which the children each claims as dependents varies from year to year, such that the lower-earning spouse can claim the child attending college.

Considerations for Single Parents

Many single parents labor under the burden of a single income, but financial aid formulas can help mitigate the hardship, especially under the Federal Methodology. If a single parent has adjusted gross income of less than $50,000 and all family members are eligible to file their annual tax returns using either IRS Form 1040A or 1040EZ—or do not need to file a federal tax return—the family qualifies for the Simplified Needs Test, which disregards assets when determining financial aid. Also, if parental income is less than $24,000, the EFC—Estimated Family Contribution—is $0.[66]

As with divorced parents, a single parent intending to get married may wish to consider when the marriage takes place, since a new spouse's income and assets will be taken into account when filing the FAFSA. For purposes of determining eligibility for financial aid, parents will be considered married for the full year in which they married, regardless of the wedding date. Suppose, for example, that a single parent earning $75,000 per year files the FAFSA in October 2019 after getting married at the beginning of December 2018 to someone earning $100,000. The FAFSA will look back at income in 2018, and even though the single parent was only married for one month of that year, his or her family income will be counted as $175,000. However, if the single parent waited until February 2019 to get married, only his or her 2018 income—$75,000—would be counted.

Legal parents who are not married but reside together

As of the 2014-2015 academic year, legal parents of any gender who live together are both being considered in the Federal Methodology of calculating aid. The FAFSA terminology is now gender neutral, referring, for example, to "Parent 1" and "Parent 2" rather than "father" and "mother."

Legal parents who were never married and do not reside together

The rules for filing for financial aid will differ for parents who do not live together, but are both recognized as legal parents of a child, depending upon whether the school requires submission of the FAFSA alone or also the CSS PROFILE. Those using the FAFSA will require financial information only from the parent with whom the child resides. Those using the CSS PROFILE, or another institution-specific form, will likely require financial information from both parents. As noted earlier, a list showing which schools require non-custodial parents to complete a CSS PROFILE and which do not can be found at collegeboard.org, the website of the College Board.[67]

Conclusion

A college education can be extraordinarily valuable, but its cost can be daunting. Student loans are a workable solution for many families, but can impose significant financial burdens on borrowers if used indiscriminately.

Families owe it to themselves to take a carefully considered approach to financing a college education, becoming familiar with the various types of aid available and understanding how the differences between them can impact out-of-pocket expenses. Students can help by applying for grants and scholarships that don't need to be repaid, which will minimize the need for loans that do have to be paid back. Students and parents can further help their cause by familiarizing themselves with the types of aid offered by the specific schools they are considering, and finding out in advance what percentage of the family's Demonstrated Financial Need those schools typically cover. All this will make it easier for families to choose a school that fits their ability to pay for college while also meeting the student's educational goals.

With so many variables in play, an undergraduate degree can cost a family nothing, or in excess of $200,000. The final number depends on factors both within and outside of the family's control, including the family's income, the school selected, and the strategies used to take advantage of available aid programs. Smart shoppers will secure the best bargains, and in doing so help to realize their students' college dreams while also safeguarding their long-term financial security.

Appendix A:
Accessing Financial Aid for College: A Checklist

DATE/TIME FRAME	ACTIVITY
First semester of student's junior year of high school	Begin evaluating colleges student may wish to attend. Consider academic programs offered, availability of merit aid, if applicable, and costs.
Junior/senior year of high school	Complete the FAFSA4caster.
Junior/senior year of high school	Visit websites of colleges under consideration and use their Net Price Calculators to assess what percentage of the family's Demonstrated Financial Need they typically cover. Also determine whether schools require filing of CSS PROFILE in addition to FAFSA, and, where applicable, if they require filing of a non-custodial CSS PROFILE.
Senior year of high school	Meet with high school guidance counselor to identify and apply for any available grants and scholarships.
October/November of student's senior year of high school, and each year thereafter that the student will be attending college	Complete and file the FAFSA. Utilize IRS Data Retrieval Tool.
October/November of student's senior year of high school, and each year thereafter that the student will be attending college	Complete and file the CSS PROFILE, if required by your school.
Senior year of high school	Review and compare award letters from colleges to which the student applied. Remember that grants and scholarships, which do not need to be repaid, are more valuable forms of aid than loans, which must be paid back.
March/April of student's sophomore year of college and each year thereafter, up until first year after graduating college	If eligible based on income, apply for either the American Opportunity Tax Credit, Lifetime Learning Credit, or currently available tax deduction.

Appendix B:
Repayment Options for Federal Loans

Borrowers generally have 10 to 25 years to repay federal student loans under standard repayment plans. If they agree to have their loan payments withdrawn automatically from a bank account, they enjoy an interest-rate reduction of one-quarter percentage point. Borrowers can choose payments that are fixed (stay the same over the life of the loan), graduating (increase over time), or income-driven (variable over time based on the borrower's income).

A number of legislative developments over the past decade have made federal loans more affordable for many graduating students who will not be high earners, at least early in their careers, and can demonstrate financial hardship under a government formula. Under the Income Based Repayment Plan created in 2007, for example, repayment terms became more generous, and under the Patient Protection and Affordable Care Act of 2010, even more favorable repayment options were introduced. New Federal Direct loans now allow repayment based on 10 percent of discretionary income, and loans are forgiven after 20 years.

> *"Important changes to the income-based repayments were made, but because they were passed under legislation that created the Affordable Care Act, few people paid much attention to them."*
>
> THE NEW YORK TIMES, *JANUARY 25, 2015*

Here's how the three types of income-driven repayment plans work:

- **Income-Based Repayment (IBR) plan.** Under an IBR plan, the borrower's monthly payment is capped based on income and family size. It generally equals 10 percent of the borrower's discretionary income, which for this purpose is defined as the amount of income above 150 percent of the family poverty level.[68] The loan is repaid over a period of 20 years. The borrower must demonstrate financial hardship to enroll in the plan,[69] meaning the amount he or she owes annually under a standard 10-year repayment plan exceeds the IBR payment amount.
- Figure 3 shows how an IBR plan might work in the first year for a hypothetical individual in a one-person household with an adjusted gross income of $40,000 a year. The example assumes this person is living somewhere in the contiguous 48 states or the District of Columbia, where the poverty level for a one-person household in 2015 is $11,770. He has just graduated with $80,000 in student loan debt bearing an 8.25 percent interest rate, and will see his income go up 5 percent annually.

Figure 3
Example: How an Income-Based Repayment Plan Works in the First Year of Repayment

A) Adjusted gross income	$40,000
B) Poverty level	$11,770
C) 150% of Poverty Level	$17,655
D) Discretionary income (A – C)	$22,345
E) 10% of Discretionary Income (D X 0.10)	$2,235 ($186/month)
F) Annual payments under standard 10-year plan. Is F greater than E? (If yes, qualifies for IBR plan)	$11,775 ($981/month) Yes
G) Annual first-year payments due under IBR (D X 10%)	$2,235 ($186/month)

The borrower in Figure 3 would see his monthly payments increase over time as his salary increases. The U.S. Department of Education estimates that his final monthly payment would be about $620. By that time his total payments will have equaled just over $89,000, and although the loan with interest would not be paid in full, the remaining debt would be discharged.[70]

Note that the discussion above applies to new borrowers who began taking loans on or after July 1, 2014. Depending on the loan program and a student's individual circumstances, this more favorable repayment program may or may not be available.

- **Pay As You Earn Repayment (PAYE) plan.** This is essentially the same as the IBR plan, but became available before new rules permitting IBR plans took effect in 2009. The PAYE plan calculates the payment amount in the same way as the IBR plan and also schedules payments over a 20-year period.

- **Revised Pay As You Earn Repayment (REPAYE) plan.** Introduced in late 2015, this plan allows anyone who has eligible federal loans to qualify. REPAYE also has a new interest rate subsidy feature that prevents loan balances from ballooning.
- **Income-Contingent Repayment (ICR) plan.** The ICR plan allows the monthly payment to be adjusted each year based on the borrower's annual income, family size, and the size of the loan. Payments are made for a maximum of 25 years and are the lesser of 20 percent of discretionary income or whatever the borrower would pay if payments were fixed over 12 years but adjusted for the borrower's income.[71] Typically, payments under the ICR plan are higher than they are under the other two income-driven plans.

Appendix C: Employment-based Repayment Options

The federal government sponsors two unique programs to help graduates with their loans, the Federal Student Loan Repayment Program and the Public Service Loan Forgiveness Program.

Federal Student Loan Repayment Program

Under this program, federal agencies can pay up to $10,000 annually towards a graduate's federal loan debt when the individual is employed by the agency. A total of $60,000 lifetime payments are permitted.[72]

Public Service Loan Forgiveness Program

Individuals who work full-time in public service jobs may be eligible to have loans made under the Direct Loan Program forgiven after 10 years of payments.[73]

Appendix D: Helpful Websites

U.S. Department of Education

Federal Student Aid, an office of the U.S. Department of Education, provides information about the Free Application for Federal Student Aid (FAFSA), and allows students and families to complete and file the FAFSA at **fafsa.ed.gov**. The website also provides information regarding federal loan repayment, including special programs such as the Income-Based Repayment Plan.

Families can estimate a student's eligibility for federal financial aid by using the FAFSA4caster at **fafsa.ed.gov**.

The Department of Labor also provides a free scholarship research tool at **careerinfonet.org/scholarshipsearch**.

Corporation for Enterprise Development

cfed.org

This website provides information on Individual Development Accounts, which are special matched savings accounts for low- and moderate-income households.

The College Board

bigfuture.collegeboard.org

The College Board provides information on available scholarships. Type "scholarships" in the search tool.

Students and families can complete and file the CSS PROFILE online. Type "CSS Profile" in the search tool.

College Data

collegedata.com

The College Data website allows families to search for colleges that provide merit and/or need-based financial aid. Click on "College Match."

College Navigator

nces.ed.gov/collegenavigator

This website allows families to search, compare, and build a list of schools based on selected criteria.

Appendix E: Footnotes

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[20] Calculation assumes a parent is age 50, earns $100,000 annually for the next five years of his of her career, and contributes $4,000 per year for five years. The calculation further assumes that the $4,000 is matched dollar for dollar by the employer, and that contributions are made annually and deposited at the end of the year. Interest is compounded annually at the end of each year until age 67.

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College funding with permanent life insurance

Help your clients gain financial protection and help pay for college

Agent guide

North American Company for Life and Health Insurance Since 1886 | Life

A financial shield against the unthinkable & a way to help pay tuition costs

The primary purpose of life insurance is to provide a death benefit to beneficiaries. It can be designed to meet your clients' changing needs with features such as a flexible death benefit and flexible premiums. The death benefit protection can make life insurance an attractive choice for establishing a self-completing plan to help fund a college education.

Earning a college degree today can now cost a significant amount—and that amount continues to rise faster than the rate of inflation.** With the spiraling costs of earning a diploma, your clients should review their options. An option to consider is permanent life insurance. Permanent life insurance provides death benefit protection and a way to potentially accumulate tax-deferred cash value growth.[1]

Two big drivers are creating an interest for using life insurance for death benefit protection and as a possible source for college funding. The first is lack of death benefit protection for many families, and the second is the rising costs of tuition. Consider these facts:

*Four in 10 households without any life insurance would have immediate trouble paying living expenses if their primary wage earner died.**

*Over the past decade, published tuition and fees for in-state students at public four-year colleges and universities increased at an average rate of 3.1% per year beyond the rate of general inflation.***

With the lack of death benefit protection and the continuing rise of tuition costs, families today need a solution to these two problems. In this guide you'll discover how to help your clients financially protect against the unthinkable while helping supplement their college savings plans with the potential cash value of permanent life insurance.

*2019 Insurance Barometer Study (Life Insurance and Market Research Association [LIMRA] and Life Happens)

**Trends in College Pricing. © 2018 The College Board. www.collegeboard.com.

What's inside

A close look at college funding

Research shows that six in ten Americans are covered by individual life insurance, however 30% know they need more.* Combine this with rising tuition costs, and many families are faced with a challenge.

Life insurance can give families protection should the insured die. His or her family will receive funds to continue their lives. The life insurance in this case may be described as "self completing" with respect to the family's college savings goal, meaning that the death benefit can be used to complete the college savings plan and help pay for college.

Additionally, with permanent life insurance, cash values may be accessed for other emergency needs if they arise, giving families a comprehensive financial protection strategy.

*Life Insurance and Market Research Association (LIMRA), Life Insurance Awareness Month, September 2015.

Understanding the concept

The first thing to remember is that life insurance provides death benefit protection. The cornerstone of a solid financial plan begins with life insurance. The college funding strategy using life insurance typically includes three parts.

1. Should a premature death occur, the life insurance death benefit could be used to complete the insured's college savings goal and help pay for college.
2. The second part of the strategy is tax-deferred[1] and potentially tax-free income through policy loans to help supplement your clients' other saving sources for college.[2]
3. After helping to pay college tuition, your clients can repurpose the policy and use it to help supplement retirement income while continuing to protect the family with the death benefit.

Why life insurance for college funding?

Key advantages

Let's take a look at several advantages of using life insurance for college funding.

- **Immediate death benefit protection.** Your clients can gain immediate death benefit protection from the start. Plus, the proceeds from the policy can help the family pay final expenses, plus help pay for college.
- **Parental stewardship.** The policyowner has control of the policy's potential cash value. Should plans change, the cash value may be used for purposes other than college funding without tax consequences.[2] This same flexibility may not be available with other financial vehicles.
- **Income tax-free death benefit.** When the insured passes away, the death benefit passes generally income tax-free to beneficiaries.[2]
- **Tax-efficient access to potential cash values.** Parents may access funds in a life insurance policy to pay for college expenses on a tax-free basis through loans or withdrawals as long as the policy is not a modified endowment contract (MEC).[3,4]
- **Diversification.** Life insurance offers a way to help clients allocate funds outside of other options, providing a way to spread any potential risk.
- **Tax-deferred growth.** With life insurance, any cash values grow on a tax-deferred basis.[1]

Items to consider

There are many ways to help pay for college tuition costs, and it's important to review several options. A thorough needs-based analysis will help your clients decide on a direction appropriate for their situation.

- **Avoid modified endowment contract (MEC)[4] status.** Weigh the MEC status with other benefits and considerations in the policy. In some circumstances, a policy that is considered a MEC may be subject to tax when a client accesses the cash values with loans or withdrawals.[3]
- **Non-guaranteed performance.** Cash values for loans and withdrawals in later years may be more or less than originally illustrated.
- **Insurance charges.** Permanent life insurance policies require monthly deductions to pay the policy's charges and expenses, some of which will increase as the insured gets older. These deductions may reduce the cash value of the policy.
- **Surrender charges.** Withdrawals may be subject to surrender charges and the amount available for policy loans.[3]
- **Loss of premium.** Depending on funding, life insurance may not guarantee avoiding loss of premium.
- **Maintaining the death benefit.** Additional premiums may be necessary to continue the desired death benefit, depending on funding.

How it works

Your clients should use personal savings as the main source for college funding. However, a key challenge with personal savings is that if the family's primary breadwinner passes away unexpectedly, personal savings plans may come to an abrupt end. Life insurance can help ensure the funding amount is available to pay for college tuition costs.

Additionally, a client's death doesn't have to be the key trigger event. Permanent life insurance with the opportunity to accumulate cash value may be used to help pay for college costs. A policy such as indexed universal life insurance may generate cash value growth while protecting against downside risk.

The fundamentals of the strategy are quite basic.

- The client purchases a permanent life insurance policy that provides death benefit protection and a way to help accumulate cash value.
- Potential cash value growth is accumulated on a tax-deferred basis.[1]
- Should the client die prematurely, the death benefit may be used to help pay college tuition costs. This event would complete the strategy.
- Alternatively, when it comes time to help pay tuition costs, the client may access the policy's cash values through generally tax-free loans or withdrawals.[3]
- After helping to pay tuition costs, clients may repurpose the policy for other possible needs, like helping to supplement retirement income, while still providing death benefit protection.

Client profile

There are potentially many clients in need of financial protection and a way to help fund the costs of a college education. The typical client profile may include:

- Those with a need for death benefit protection.
- Young families with children up to age 13.
- People concerned about college tuition costs.
- Those who are possibly looking to help supplement income in retirement years.

Why North American?

Turn to North American for help with your college funding cases. In addition to our knowledgeable Sales Development team, you'll gain several benefits including:

- Competitive products. A robust product portfolio that meets your clients' needs for death benefit protection. For clients looking for solutions for college funding in addition to death benefit protection, consider products within our portfolio that can help generate cash value, like indexed universal life insurance (IUL). Here's why to consider IUL:
  - Interest credit is never less than zero percent, subject to cap on interest credits.
  - Clients can choose from several index selections, for cash value growth potential.
  - Our products guarantee that the account value has earned at least a 2.5% average per year calculated from policy issue every ten years.
  - Accelerated death benefits are available to help with living needs should certain conditions be met.
- Fair and consistent underwriting. You can depend on North American to provide fast turnaround times on your submitted business.
- Competitive compensation. Your time and commitment can be well-rewarded with our generous compensation. Plus, we take a collaborative approach to help grow your business and are here to answer your questions and provide guidance along the way.
- Financial stability. Our financial ratings are sound, and private ownership means we're focused on long-term value.[5]
  - A+ (Superior) A.M. Best (2nd of 15 categories)
  - A+ (Strong) Standard & Poor's (5th of 22 categories)
  - A+ (Stable) Fitch Ratings

Resources

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Email: salessupport@nacolah.com

Hours: 7:30 a.m. – 5 p.m. CT, Monday through Thursday;
7:30 a.m. – 12:30 p.m. Friday

Agents offering, marketing, or selling accelerated death benefits for chronic illness in California must be able to describe the differences between benefits provided under an accelerated death benefit for chronic illness and benefits provided under long-term care insurance to clients. You must provide clients with the ADBE Consumer Brochure for California that includes this comparison. Comparison is for solicitation purpose only, not for conversions.

1 The tax-deferred feature of universal life or indexed universal life insurance is not necessary for a tax-qualified plan. In such instances, your client should consider whether other features, such as the death benefit and optional riders make the policy appropriate for the client's needs. Before purchasing a policy, your client should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product.

2 Neither North American Company for Life and Health Insurance nor its agents give legal or tax advice. Please advise your customers to consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

3 In some situations, loans and withdrawals may be subject to federal taxes. Clients should be instructed to consult with and rely on their own tax advisor or attorney for advice on their specific situation. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

4 For most policies, withdrawals are free from federal income tax to the extent of the investment in the contract, and policy loans are also tax-free so long as the policy does not terminate before the death of the insured. However, if the policy is a Modified Endowment Contract (MEC), a withdrawal or policy loan may be taxable upon receipt. Further, unpaid loan interest on a MEC may be taxable. A MEC is a contract received in exchange for a MEC or for which premiums paid during a seven-year testing period exceed prescribed premium limits (7-pay premiums).

5 A.M. Best is a large third-party independent reporting and rating company that rates an insurance company on the basis of the company's financial strength, operating performance, and ability to meet its obligations to policyholders. Rating shown reflect the opinion of the rating agency and are not implied warranties of the company's ability to meet its financial obligations. a) A.M. Best rating affirmed on August 2, 2018. For the latest rating, access www.ambest.com Standard & Poor's rating assigned February 26, 2009 and affirmed on September 10, 2018. Awarded to North American Company for Life and Health Insurance® as part of Sammons® Financial Group Inc., which consists of Midland National® Life Insurance Company. The primary purpose of life insurance is to provide a death benefit to beneficiaries. Because of the uncertainty surrounding all funding options except savings, it is critical to encourage your clients to make personal savings the cornerstone of your clients' college funding program. However, even a well-conceived savings plan can be vulnerable. Should your clients die prematurely, their savings plan could come to an abrupt end. For detailed information about these companies, their ratings, and to learn more about North American's financial strength, please visit the About Us section of www.NorthAmericanCompany.com. Fitch Ratings, a global leader in financial information services and credit ratings, on April 17, 2019, assigned an Insurer Financial Strength rating of A+ Stable for North American. This rating is the fifth highest of 19 possible rating categories. The rating reflects the organization's strong business profile, low financial leverage, very strong statutory capitalization and strong operating profitability supported by strong investment performance. For more information, read the Fitch Ratings report.

To protect against this unexpected event, life insurance may be the only vehicle that can help assure the completion of a funding plan. In addition to the financial protection aspect of insurance, the tax-deferred buildup of cash values can be part of your clients' college savings plan. Generally, if the policy is not a Modified Endowment Contract then tax-free withdrawals can be made up to the contract's cost basis. Moreover, if the policy is not a Modified Endowment Contract, then loans in excess of the cost basis are also tax free as long as the policy remains in force.

Products, features, riders, endorsement or issue ages may not be available in all jurisdictions. Restrictions or limitations may apply.

Indexed Universal Life products are not an investment in the "market" or in the applicable index and are subject to all policy fees and charges normally associated with most universal life insurance.

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College Funding with Permanent Life Insurance

Case Study

Help Your Clients Reach Their Goals

QUICK LOOK

The primary purpose of life insurance is to provide a death benefit to beneficiaries. It can also be designed to meet your clients' changing needs with features such as a flexible death benefit and flexible premiums. Death benefit protection can make life insurance an attractive choice for establishing a self-completing plan to help fund a college education. The college funding strategy using life insurance typically includes three parts.

1. Should a premature death occur, the life insurance death benefit could be used to complete the insured's college savings goal and help pay for college.
2. The second part of the plan is tax-deferred[1] and potentially tax-free income through policy loans to supplement your clients' other saving sources for college.[2]
3. After helping to pay college tuition, your clients can reposition the policy and use it to help supplement retirement income while continuing to protect the family with the death benefit.

THE SITUATION

Paul and his wife Molly are proud parents of a six-month-old girl. The couple is eager to start planning for the future and want to put together a strategy to help them meet their future financial needs.

With the added responsibility, they realize that should something happen to Paul, the family's primary source of income, it would be a challenge for Molly to keep up with expenses. With a mortgage, car loans, outstanding student debt, and all of the other household expenses, the couple currently feels financially vulnerable.

Both Paul and Molly are big supporters of a good college education. The couple has decided that they would like to help their daughter through college when the time comes. The couple is well aware of high tuition costs, having student debt themselves. They worry that the costs of a college education will only continue to rise.

A SOLUTION

Paul and Molly meet with a life insurance agent to discuss their need for death benefit protection. Their first priority is life insurance protection. The agent asks several questions and takes a thorough look at the family's finances. The agent presents an option that offers financial protection plus a way to help fund their daughter's education with permanent life insurance.

Is there a way to help Paul and Molly financially protect their family now while helping to fund college for their daughter when the time comes?

A SOLUTION

Life insurance was an unexpected source of college funding for the couple, and they were happy to know they could both financially protect their family now and help provide for their daughter's future later.

Here were the key points covered by their agent:

- **Immediate death benefit protection.** The couple can gain peace of mind from the start with death benefit protection. The money from the policy can help Molly pay expenses and also help with college tuition costs should Paul die prematurely.
- **Parental stewardship.** Paul has control of the policy's potential cash value accumulation. Should his daughter's plans change, the potential cash value accumulation may be used for purposes other than college funding without tax consequences.[3] This same flexibility may not be available with other planning vehicles.
- **Tax-efficient access to potential cash values.** The couple may access funds in their life insurance policy to pay for college expenses generally tax-free through loans or withdrawals as long as the policy is not a modified endowment contract (MEC).[2,4,5]
- **Tax-deferred growth.** With life insurance, cash values can grow on a tax-deferred basis.[1]
- **Diversification.** Life insurance offers a way to help the couple allocate funds outside of other options, providing a way to spread any potential risk. Additionally, permanent life insurance offers protection from downside risk by guaranteeing a minimum credited interest rate.

CONSIDERATIONS

- **Avoid Modified Endowment Contract status (MEC).[5]** Weigh the MEC status with other benefits and considerations in the policy. In some circumstances, a policy that is considered a MEC may be subject to tax when a client accesses the cash values with loans or withdrawals.[2]
- **Non-guaranteed performance.** Cash values for loans and withdrawals in later years may be more or less than originally illustrated. We encourage you to look at a variety of scenarios to see how the life insurance policy performs under different assumptions.
- **Insurance charges.** Permanent life insurance policies require monthly deductions to pay the policy's charges and expenses, some of which will increase as the insured gets older. These deductions may reduce the cash value of the policy.
- **Loss of premium.** Depending on funding, life insurance may not guarantee avoiding loss of premium.
- **Surrender charges.** Withdrawals may be subject to surrender charges and the amount available for policy loans.

Need help with your college funding cases?

Contact Sales Development today at **(800) 800-3656** ext. **10411** or email **salessupport@nacolah.com.**

1 The tax-deferred feature of universal life or indexed universal life insurance is not necessary for a tax-qualified plan. In such instances, your client should consider whether other features, such as the death benefit and optional riders make the policy appropriate for the client's needs. Before purchasing a policy, your client should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product.

2 In some situations, loans and withdrawals may be subject to federal taxes. Clients should be instructed to consult with and rely on their own tax advisor or attorney for advice on their specific situation.

3 Neither North American Company for Life and Health Insurance nor its agents give tax advice. Please advise your customers to consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

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5 For most policies, withdrawals are free from federal income tax to the extent of the investment in the contract, and policy loans are also tax-free so long as the policy does not terminate before the death of the insured. However, if the policy is a Modified Endowment Contract (MEC), a withdrawal or policy loan may be taxable upon receipt. Further, unpaid loan interest on a MEC may be taxable. A MEC is a contract received in exchange for a MEC or for which premiums paid during a seven-year testing period exceed prescribed premium limits (7-pay premiums).

The primary purpose of life insurance is to provide a death benefit to beneficiaries. Because of the uncertainty surrounding all funding options except savings, it is critical to encourage your clients to make personal savings the cornerstone of your clients' college funding program. However, even a well-conceived savings plan can be vulnerable. Should your clients die prematurely, their savings plan could come to an abrupt end.

To protect against this unexpected event, life insurance may be the only vehicle that can help assure the completion of a funding plan. In addition to the financial protection aspect of insurance, the tax-deferred buildup of cash values can be part of your clients' college savings plan. Generally, if the policy is not a Modified Endowment Contract then tax-free withdrawals can be made up to the contract's cost basis. Moreover, if the policy is not a Modified Endowment Contract, then loans in excess of the cost basis are also tax free as long as the policy remains in force.

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College funding

Client profile

Name: ______________________ **Agent code:** ______________________

Email: ______________________ **MGA:** ______________________

The primary purpose of life insurance is to provide a death benefit to beneficiaries. Death benefit protection can make life insurance an attractive choice for establishing a self-completing plan to help fund a college education. Permanent life insurance that can accumulate cash value may be used to help pay for college costs.

Help your clients gain financial protection and help pay for college

If your clients…

- Need life insurance protection
- Have young families with children up to 13 years old
- Are concerned about college tuition costs
- Are possibly looking to help supplement income in retirement years

… College funding with permanent life insurance may be the answer.

List the names of five clients who fit the above profile and whom you would like to help meet their life insurance needs and financial goals.

Client name: ______	**Age:** ______	**Gender:**	**Tobacco:Y/N**	**State:**
Premium amount: ______	**Child age:** ______	______	______	______
Client name: ______	**Age:** ______	**Gender:**	**Tobacco:Y/N**	**State:**
Premium amount: ______	**Child age:** ______	______	______	______
Client name: ______	**Age:** ______	**Gender:**	**Tobacco:Y/N**	**State:**
Premium amount: ______	**Child age:** ______	______	______	______
Client name: ______	**Age:** ______	**Gender:**	**Tobacco:Y/N**	**State:**
Premium amount: ______	**Child age:** ______	______	______	______
Client name: ______	**Age:** ______	**Gender:**	**Tobacco:Y/N**	**State:**
Premium amount: ______	**Child age:** ______	______	______	______

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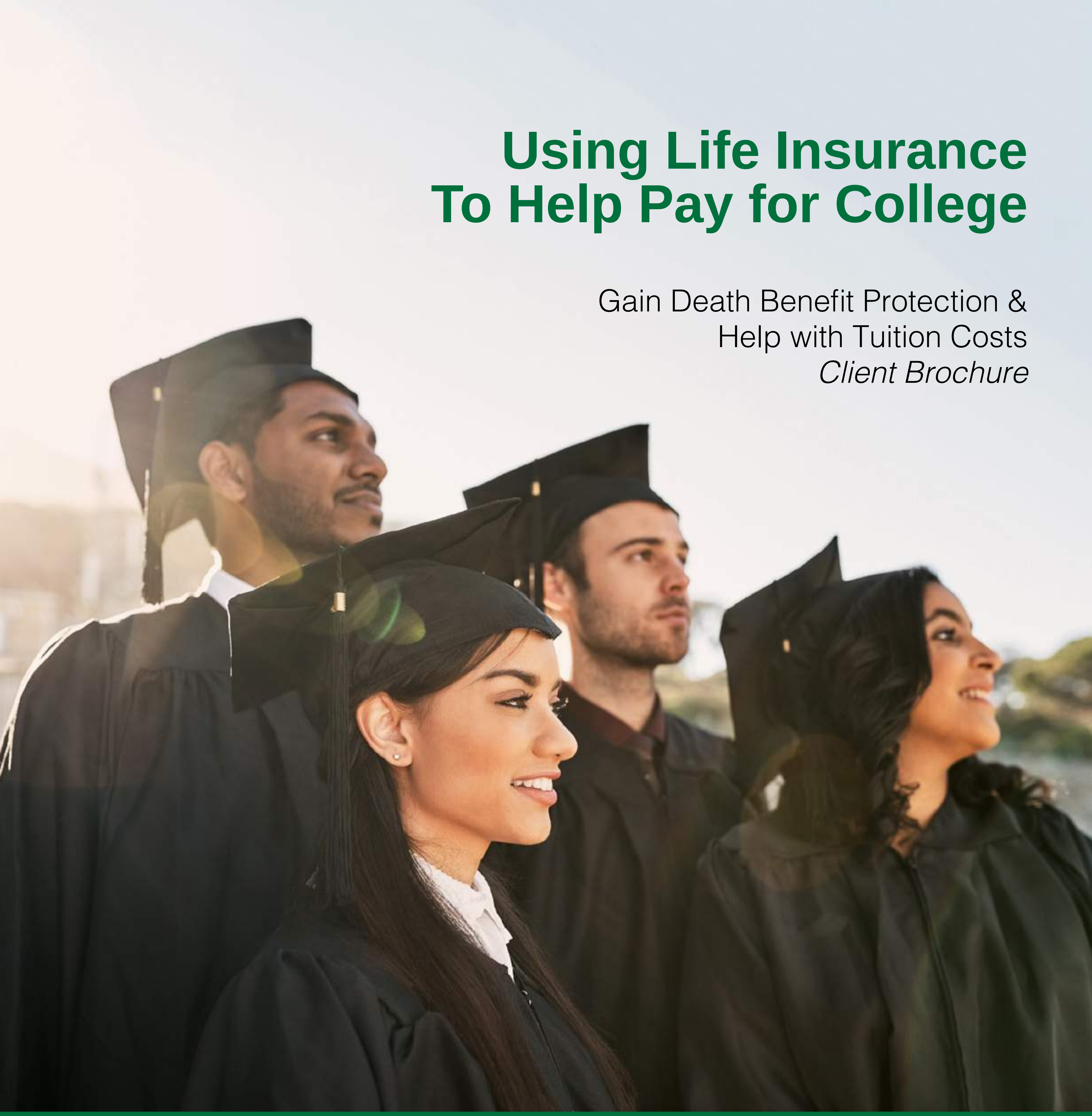
Help with Tuition Costs
Client Brochure



Life

North American Company
for Life and Health Insurance
Since 1886

Achieve financial protection and help pay for the increasing costs of college tuition.

The primary purpose of life insurance is to provide a death benefit to beneficiaries. This death benefit protection can make life insurance an attractive choice to help fund a college education.

While many people are aware that the cost of a college education has been on the rise, many underestimate just how large this cost has grown. According to the 2016 Trends in College Pricing published by The College Board, over the past decade, the published in-state tuition and fees for four-year public colleges and universities grew at an average rate of 3.5% per year beyond the rate of inflation.* At the same time, many families lack life insurance protection, which many consider to be the cornerstone of financial protection. Recent studies show that four in ten U.S. households have no life insurance coverage at all,** which leaves them vulnerable should the primary breadwinner die unexpectedly. What many people may not realize is that with the right life insurance policy, you can secure needed death benefit protection while gaining a way to help pay for college education.

* Trends in College Pricing. © 2016 The College Board. www.collegeboard.com.

** Life Insurance and Market Research Association (LIMRA) 2016 Insurance Barometer Study.

KEY QUESTIONS	ITEMS DISCUSSED
Why life insurance?	Learn how life insurance can meet death benefit protection needs and help pay for college education.
Who can benefit?	Explore whether using life insurance to help fund college tuition costs is right for you.
How does it work?	Discover the steps to financially protect what's important while fulfilling the desire to help pay for college.

WHY LIFE INSURANCE?

Your personal savings should be the primary source for college funding.[1] However, that comes with a challenge: if the family's primary breadwinner dies prematurely, the personal savings plan typically comes to an abrupt end. In this situation, a life insurance policy can help. The policy's death benefit could be used to help pay college tuition costs.

A key benefit of permanent life insurance, is that it has the potential to accumulate cash value on a tax-deferred basis.[2] Those funds can then be accessed while you are living to help pay for college costs.

Some of the advantages of a permanent life insurance policy include:

- **Parental stewardship.** The policyowner has control of the policy's potential accumulated cash value. Should plans change, the accumulated cash value can be used for other purposes without tax consequences.[3]
- **Tax-deferred growth.** Cash values within a life insurance policy generally grow tax-deferred.[2]
- **Policy loan options.** Different loan options are available to help you access the potential cash values within your policy.[4]

WHO CAN BENEFIT?

There are a few items to consider before using life insurance for death benefit protection and a way to help pay for tuition costs:

- Are you in need of death benefit protection to help ensure your family is financially protected?
- Do you have a child or children up to 13 years old?
- Are you concerned about college tuition costs?

Life Insurance Considerations

It's important to explore your options and to work with your life insurance representative to gain a clear picture of your needs. There are costs with life insurance. Permanent life insurance policies require monthly deductions to pay the policy's charges and expenses, some of which will increase as you get older. These deductions may reduce the cash value of the policy. Additional premiums may be necessary to continue the desired death benefit, depending on funding. Withdrawals may be subject to surrender charges and the amount available for policy loans.

HOW DOES IT WORK?

After a thorough needs-based discussion with your life insurance representative, you select a life insurance policy that matches your needs. The basic steps typically include:

- Purchase a permanent life insurance policy. The policy provides death benefit protection and a way to help accumulate cash value on a tax-deferred basis.[2]
- If the unexpected happens and you die prematurely, the life insurance death benefit would be paid generally income tax-free[3] to beneficiaries.
- Alternatively, when it comes time for you to pay tuition costs, you may access the policy's potential cash values through generally tax-free loans or withdrawals.[4]
- After helping pay tuition costs, you may reposition the policy for other possible needs.

North American Company
for Life and Health Insurance
Since 1886

Get started today. Contact your North American representative and financially protect what's important now, while helping to fund a college education.

North American Company for Life and Health Insurance has been providing quality life insurance products since 1886. As one of the leading life insurance companies in the U.S., we'll make it as easy as possible for you to become one of our insureds. Please visit our Website at www.NorthAmericanCompany.com to find out more about our company.

1. The primary purpose of life insurance is to provide a death benefit to beneficiaries. Because of the uncertainty surrounding all funding options except savings, it is critical to make personal savings the cornerstone of your college funding program. However, even a well-conceived savings plan can be vulnerable. Should you die prematurely, your savings plan could come to an abrupt end.

To protect against this unexpected event, life insurance may be the only vehicle that can help assure the completion of a funding plan. In addition to the financial protection aspect of insurance, the tax-deferred buildup of cash values can be part of your college savings plan. Generally, if the policy is not a Modified Endowment Contract then tax-free withdrawals can be made up to the contract's cost basis. Moreover, if the policy is not a Modified Endowment Contract, then loans in excess of the cost basis are also tax free as long as the policy remains in force.

2. The tax-deferred feature of universal life or indexed universal life insurance is not necessary for a tax-qualified plan. In such instances, you should consider whether other features, such as the death benefit and optional riders make the policy appropriate for your needs. Before purchasing a policy, you should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product.

3. Neither North American Company nor its agents give legal or tax advice. Please consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

4. Policy loans from life insurance policies generally are not subject to income tax, provided the contract is not a Modified Endowment Contract (MEC), as defined by Section 7702A of the Internal Revenue Code. A policy loan or withdrawal from a life insurance policy that is a MEC is taxable upon receipt to the extent cash value of the contract exceeds premium paid. Distributions from MECs are subject to federal income tax to the extent of the gain in the policy and taxable distributions are subject to a 10% additional tax prior to age 59½, with certain exceptions. Policy loans and withdrawals will reduce cash value and death benefit. Policy loans are subject to interest charges. Consult with and rely on your tax advisor or attorney on your specific situation. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year. Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class, and policy year.

Life insurance policies have terms under which the policy may be continued in force or discontinued. Permanent life insurance requires monthly deductions to pay the policy's charges and expenses, some of which will increase as the insured gets older. These deductions may reduce the cash value of the policy. Current cost of insurance rates and current interest rates are not guaranteed. Therefore, the planned periodic premium may not be sufficient to carry the contract to maturity. For costs and complete details, refer to the policy or call 877-872-0757 or write North American Company for Life and Health Insurance, One Sammons Plaza, Sioux Falls, SD, 57193.

Supplementing your saving for college with a Whole Life Insurance policy

Whole life insurance isn't typically top of mind when it comes to saving for college, but it can be used as part of a well-rounded funding plan, which includes a 529 plan. The value of a policy can grow over time and ultimately provides access to money with several advantages as a college savings fund.

A 529 plan can be a great way to save for a child's education, offering a number of financial benefits when used for qualifying expenses —including generous contribution limits, favorable state tax treatment for state residents, tax-deferral of earnings, and tax-free distribution. It also offers a number of investment options within the plan so you can take advantage of professional money management for potential growth. But despite these benefits, there are limitations. A 529 plan is subject to investment and market risks, so a downturn in the market can leave you with less funds than you need. A 529 plan investor should always consider the program's investment objectives, risks, charges, and expenses before investing. The program disclosure statement, available through your financial professional, contains more information and should be read carefully before investing. Before investing, investors should consider whether their home states offer 529 plans that provide state tax and other benefits only available to state taxpayers investing in such plans.[1, 2]

Compared to other savings vehicles, such as 529 plans, a whole life insurance policy is more flexible.[3] For one, a 529 plan can only be used for qualifying educational expenses whereas the cash value of a whole life insurance policy is not limited to specific types of expenses, giving you more flexibility over how you can use your money. It's also typically excluded from college financial aid formulas, so it won't detract from any aid your child could receive.

While the most obvious approach would be to use the cash value of your life insurance policy toward your child's educational expenses, there are multiple ways to use whole life to save for college in combination with more traditional college savings options.

Use your cash value.

Of course, the primary purpose of life insurance is to provide a benefit to help your family cover expenses, including college costs, in the event of an untimely death. A whole life policy provides both a guaranteed life insurance benefit and a savings feature. This savings feature comes with the cash value of the policy, which grows tax-deferred over time. As a whole life policy owner, you're also eligible to receive dividends. Dividends can be received as cash or can be used to purchase additional insurance, which can deliver even more dividends over time.

To pay educational expenses, you can withdraw some of your cash value.[1] Accessing the cash value will reduce the available cash surrender value and total life insurance benefit of the policy. The money is generally tax free—up to the amount of premiums you've already paid. Beyond that amount, it's taxable but this may not matter since educational expenses, except for room and board, are tax deductible.[2]

Using your cash value doesn't have the same restrictions and limitations as 529 plans, so it can be used as a complement to this savings vehicle. Unlike funds in a 529 plan, this money can be used for anything you want. You're not limited by the IRS's definition of qualified educational expenses and using this money will not typically reduce the amount of financial aid for which your child is eligible.

Take a loan against the value of the policy[4, 5]

Another approach for those who wish to use whole life as a college savings vehicle is taking out a loan against the value of the policy. The advantage here is that the money you receive is generally tax free and there's no loan application process. While other loans require you to prove your eligibility, a loan against your life insurance policy uses the value you've already accumulated as collateral. Like other loans, a loan against your cash value will accumulate interest, but borrowers are not required to make payments on the loan. (Still, paying back the loan should be part of your plan as a loan can reduce the life insurance benefit attached to the policy.) There may also be tax consequences if your policy lapses with an outstanding loan.

Use your child's policy value.

Paying for expenses related to your child's education can also be done through his or her own life insurance policy. As a parent, you can insure your child at a young age and access the policy's cash value later—similar to how you would access the cash value of your own policy.[1] An advantage is that the younger and healthier the insured is, the less life insurance costs; so children are relatively inexpensive to insure. If you purchase a policy when your child is very young, it can accumulate value for when they are ready to go to college to offset some of the expenses. In addition, you can lock in protection for the rest of your child's life.

Want to learn more about which college savings method is right for your family? A financial professional can walk you through the most effective approaches including the possibility of complementing your college funding plan with life insurance.

[1] Neither New York Life Insurance Company nor its affiliates and agents provide tax, legal, or accounting advice. Please consult your own tax, legal, or accounting professional before making any decisions. In Oregon, the policy form number for New York Life Whole Life is ICC18217-50P (4/18).

[2] New York Life Insurance Company (NY, NY). Securities are offered through NYLIFE Securities LLC (Member FINRA SIPC), a licensed insurance agency and New York Life company.

[3] A whole life policy involves insurance fees and charges, while a 529 plan does not; however, a 529 plan involves investment fees and charges. A whole life policy involves the risk of lapse, in which case the insured would lose the insurance benefit. Guarantees are based on the claims-paying ability of the issuer.

[4] Accessing the cash value will reduce the available cash surrender value and total life insurance benefit of the policy

[5] There may be adverse tax implications for a policy classified as a modified endowment contract (MEC) or if the amount of your loans and/or partial surrenders exceeds the cost basis of the policy. In addition, certain partial surrenders from a policy that is not classified as an MEC and that are made within the first 15 years after it is issued may be fully or partially taxable. Distributions, including loans, from an MEC are taxable to the extent of the gain in the policy and may also be subject to 10% additional tax if the owner is under age 59½.

MARCH 24, 2021

Here's How to Use Your Life Insurance to Pay for College

Let's take a moment to talk about something that parents squirreling away money for their child's college education may not fully realize: When you use a 529 plan to save money for higher education costs, colleges and universities will count that accumulated cash among your family's assets when calculating how much financial aid your child may or may not qualify to receive. However, the money amassed in a whole or universal life insurance policy is *not* counted as an asset for financial aid qualification purposes.

Why does this matter? Because with the steep (okay, downright debilitating) cost of college tuition these days, families need a well-thought-out strategy for minimizing out-of-pocket costs and a whole or universal life insurance policy may be one approach to doing that.

"Most people are sold on the idea of 529 plans, but 529 assets can reduce the amount of financial aid a student receives. Having whole life insurance won't, everything else being equal," May Jiang, tax and financial advisor with OffitAdvisors, tells Parents. "Switching your savings strategy from a 529 plan to a whole life insurance plan can effectively improve your child's chances of earning more financial aid."

Before getting too deep into this discussion, let's be clear. None of this is to say 529 plans aren't a good choice or a valuable savings tool when it comes to setting aside money for college. They are. But every family has different circumstances and needs and it's important to be aware of all the tools available when it comes to tackling the ever-increasing cost of college.

Here's a closer look at how to use life insurance to help fund higher education.

If you're contemplating using life insurance to help pay for your child's college education, the first thing to understand is that not all policies are up to the task. You'll want to look for a cash value policy, such as a universal and whole life insurance policy, as opposed to term life insurance, which has no cash savings component.

You can use the cash inside universal or whole policies to pay for anything, including tuition. Whole life policies are a particularly popular option for doing this.

"Whole life insurance policies have a cash value that increases over time, and the cash value you accumulate is yours to spend if the need arises," Kevin Draeger, CFP and internal wholesaler for COUNTRY Financial, tells Parents. "So, whether you need it for education expenses, an emergency fund, or a substantial payment, your whole life policy can work for you while you're still living."

Universal life insurance is also a worthwhile choice, says Clifford Caplan, a wealth manager who during the financial crisis of 2008 tapped into his own life insurance policy to cover college tuition costs for his children when his stock market assets tanked.

"The cash value from life insurance can be used almost like it is a bank account. The difference is that withdrawing funds will likely be treated as a loan, but you are really borrowing from yourself. And you can take your time to repay," says Caplan.

There are three primary ways to draw on the money in a cash value policy. One of the most popular options is taking a loan against the value of your life insurance policy, which you later pay back in full in order to restore the value of your policy, Amy Danise, chief insurance analyst for Forbes Advisor tells Parents.

"The insurer will charge loan interest, which you'll also pay back," says Danise.

Keep in mind, however, that the policy's death benefit will be reduced when you have an outstanding loan—and if you pass away before it's paid back, beneficiaries receive a reduced death benefit.

Another option is to take a withdrawal of cash value, says Danise. "This means you don't intend to pay the money back and you know your death benefit will be reduced," she explains.

A third and final option (and really the least ideal), is to surrender the policy entirely for the available cash value. In this scenario, you would receive the policy's cash value minus any surrender charge the insurer charges.

"Consider this only if you no longer need life insurance, because surrendering the policy terminates it. And if you have a child in college you likely still want life insurance," advises Danise.

If you're considering any of these options, contact your insurance company first and find out how much cash is actually available for withdrawal. It's also a good idea to speak with a financial advisor to weigh the pros and cons of all your options.

Yet another factor to keep in mind when considering life insurance as a vehicle to help pay for college: fees. There's a variety of them, Shervin Eftekhari, president of Zander Insurance, tells Parents.

"Whole and universal life insurance policies may offer a savings component, but they also include significant upfront and recurring fees," Zander says. "At least half of your first-year premiums will typically go to pay the agent's commission, and it can take 10 years or more for your cash value to grow into an amount substantial enough to use for post-secondary education."

In addition, many permanent life policies charge 2 percent or more per year in administrative fees and investing costs, which will eat into the money being saved. A 529 plan, on the other hand, will cost you a fraction of the costs associated with a life insurance policy, says Zander.

A life insurance policy is essentially a tax-free savings account, says Jiang. But if you're going to use this approach to saving for college, it's important to get started early, when your child is first born, so that you have ample time to accumulate a substantial amount of money. It's also less expensive to obtain insurance when you're younger.

However, before you take any cash withdrawal from your policy, ask a professional to run a policy illustration showing you the future effect of taking the money out. This is important because when you withdraw money, you run the risk of depleting a policy's overall value so much that the policy lapses.

"What you're looking for in the policy illustration is a future problem where your cash value will drop below the minimum balance required by the insurer, which will cause the policy to lapse," says Danise.

In such a scenario, you could be on the hook for paying extra premiums unexpectedly in order to keep the life insurance in place.

"I don't think people realize this can happen. While you have that loan, you're still being charged regular fees and expenses, such as a mortality fee, which is the cost of insuring you," continues Danise. "Your premiums might keep up with these charges coming out, but they may not."

Still, says Danise, a thoughtful approach to using life insurance to cover college costs is certainly worth the discussion.

"One of the reasons to have a cash value policy is to access the cash value," says Danise. "With most policies, beneficiaries receive the face amount and *not* the face amount plus cash value. Someone who has a cash value policy might as well use it for their needs while they're alive."

SAVE FOR COLLEGE WITH CONFIDENCE

YOUR GUIDE TO EDUCATION FUNDING

Many parents and grandparents view funding their children's education as one of their most important financial priorities. Yet parents often underestimate the future cost of higher education, and many do not have a plan in place to help pay for their child's education[1].

According to Sallie Mae, the nation's leading provider of education funding, fewer than two in five families (38 percent) indicated that they had a plan to pay for all years of college before their child enrolled.

The old adage of "Save early and save as much as you can" has been the mantra of many advisors for retirement, and that might seem like a good plan for educational savings. But the key is to ensure that your desire to help fund your children or grandchildren's education is balanced within your overall financial plan.

In this guide, we'll help you understand the costs associated with a college education—now and in the future, the funding options available to you, and how education funding should be evaluated within your larger financial plan. Whether you are welcoming a new baby to your family or already have children or grandchildren nearing college age, you will find tips and strategies to help you make the best decisions for your personal situation.

HOW AMERICANS PAY FOR COLLEGE

42%

OF COLLEGE COSTS

paid by out-of-pocket contributions from parents' and student's savings and income investment assets[1].

[1] Sallie Mae, "How Americans Pay for College 2014."

Northwestern Mutual®

THE COST AND VALUE OF A HIGHER EDUCATION

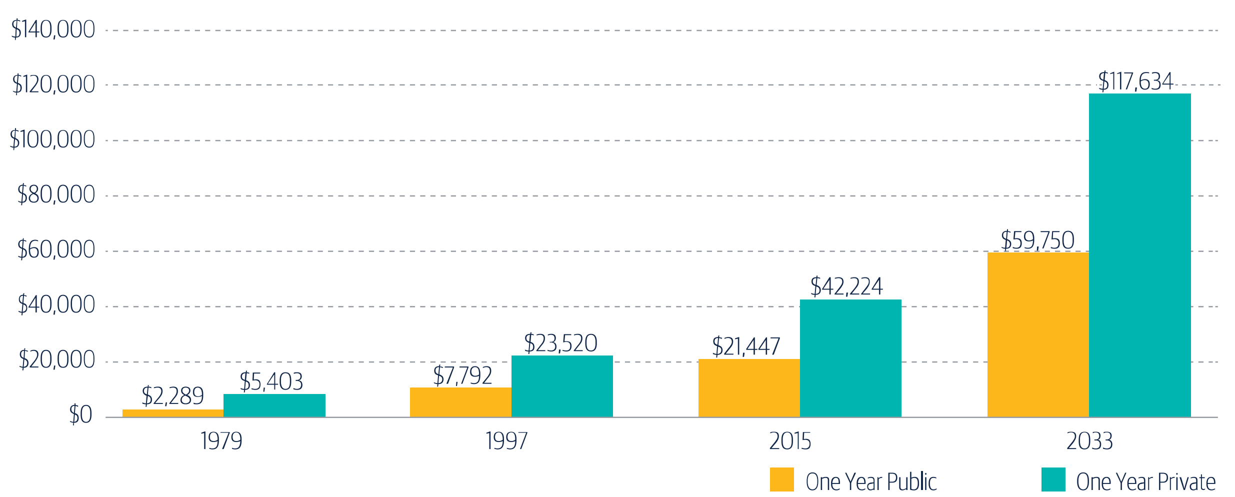
For many years, a bachelor's degree has been seen as the surest route to a career-oriented, good-paying job. Today, some Americans are wondering whether this is still true. College costs continue to rise sharply, student debt has been mounting, and some newly minted college graduates are struggling to find good jobs.

A new report from the Federal Reserve Bank of New York[1] answers this question quite clearly: Yes, college is worth it. And, in some respects, a four-year degree has never been more valuable. Analysis by the Federal Reserve shows the annual economic return of a college degree has held steady at 15 percent for more than 10 years, easily surpassing what most people consider a sound investment. Why? Because the difference in earnings between college graduates and those with only a high school diploma continues to grow faster than rising tuition costs[1].

While the economic benefits of a college degree have never been greater, earning a bachelor's degree has never been more expensive. Today, the annual price tag for a four-year private university is $42,224, while an in-state public school costs $21,447[2]. As you can see in the graphic below, these costs are a dramatic increase from just a generation or two ago.

And the costs are expected only to rise. In 2033, the start of college for a child born this year, the average cost for one year of school at a four-year private institution is projected at $117,634 and $59,750 for one year at an in-state public university[3].

ARE YOU PREPARED FOR COLLEGE COSTS TO DOUBLE OR TRIPLE TODAY'S PRICES?



1979 and 1997 costs from National Center for Education Statistics Table 320. 2015 costs, The College Board, Cost of College Calculator. 2033 costs calculated from 2015 costs with a 5 percent inflation rate. Costs include tuition and fees, transportation, and room and board.

[1] Federal Reserve Bank of New York, 2014, "Do the Benefits of College Still Outweigh the Costs?"

[2] Big Future, The College Board

[3] 2033 costs calculated from 2015 costs with a 5 percent inflation rate. Costs include tuition and fees, transportation, and room and board.

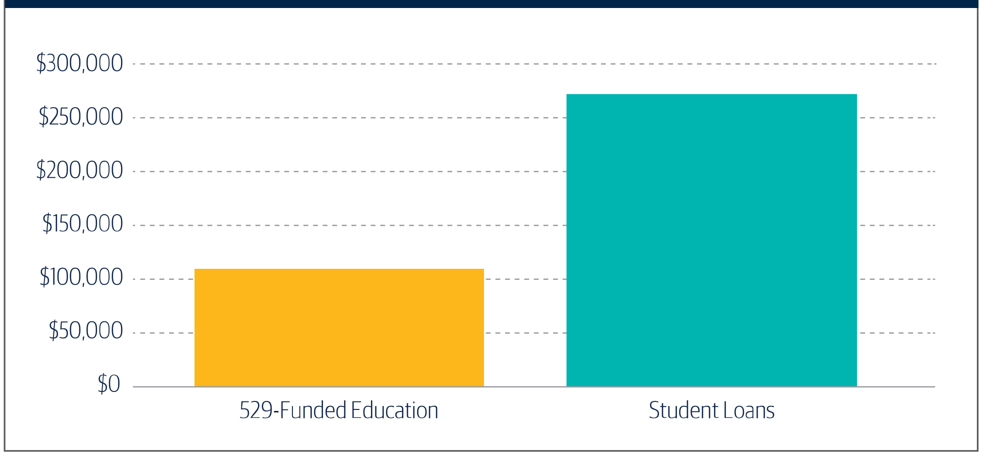
SAVE NOW OR PAY LATER?

The cost of higher education can be daunting. Yet as the graph below shows, even a small amount saved today can dramatically impact your child's funding plan versus borrowing later to cover the cost. Putting money away today allows the growth of the savings to compound. In the same way, interest on loans incurred to pay for college also compounds, significantly increasing the cost of education.

> Putting money away today allows the growth of the savings to compound.

For example, let's say you plan to cover four years of college (current annual cost of $20,000) for a child born today. To meet that expense 18 years from now, you would need to save $448 per month (from birth) in a 529 plan—totaling $113,000 in contributions, assuming a conservative 5 percent college cost inflation rate and a 6 percent annual investment return.

529-FUNDED VS STUDENT-LOAN FUNDED EDUCATION



Source: SavingForCollege.com

What would happen if you decided to borrow the same funds to pay for college rather than saving and investing in advance? According to SavingforCollege.com, to borrow for the same four years of future costs, your child would graduate owing about $276,383 in loans. This translates into a monthly payment of approximately $2,300 over the next 10 years, assuming a 6 percent loan interest rate. In other words, college would end up costing an additional $163,383, or more than double in out-of-pocket costs, than if you had saved and invested in advance.

WHAT'S THE COST OF WAITING?

Using a similar scenario, let's evaluate the impact of waiting a few years to begin saving for college. In the graphic below, you'll see that if you begin a month after your child is born (versus the graph on page 3, starting at birth), your payments are approximately $459 per month with a tax-free account. Waiting just three years increases the payment to $595 per month; and if you wait 10 years, that monthly payment jumps to $1,232. And saving into a taxable account requires an even larger payment.

	THE COST OF WAITING Payments to Cover 100 Percent of Cost			
	SINGLE PAYMENT		MONTHLY PAYMENT	
	529 PLAN	TAXABLE	529 PLAN	TAXABLE
START NOW (1 month from birth)	$66,822	$83,371	$459	$520
WAIT 3 YEARS	$79,605	$95,954	$595	$658
WAIT 10 YEARS	$119,664	$133,245	$1,232	$1,296

This scenario is for illustration only. Assumptions: $20,000 current cost, 6 percent rate of return, 5 percent inflation.

It seems logical to say "Now is the time to get started." But educational savings plans are not one-size-fits-all. How much income you have available for saving, your philosophy on how much your children should contribute to their own education, and other financial priorities all need to be considered when building an educational funding plan. Your financial advisor can help run scenarios taking into consideration these factors to build a personal plan for you. It's important to review your personalized financial plan annually to ensure it evolves as your needs and circumstances change over time.

STRATEGIES TO HELP PAY FOR COLLEGE

So how does a family go about planning for college funding? While the costs can be discouraging, you have more options than ever when it comes to saving for higher education costs. Some options provide tax advantages, while others provide more flexibility in how the funds are used.

EDUCATIONAL SAVINGS PLANS

The government has created two accounts to help save for a child's education: 529 Plans (created at the state level) and Coverdell Education Savings Accounts (Coverdell, created at the federal level). Both offer important tax advantages not available through other college savings options such as investments and custodial accounts.

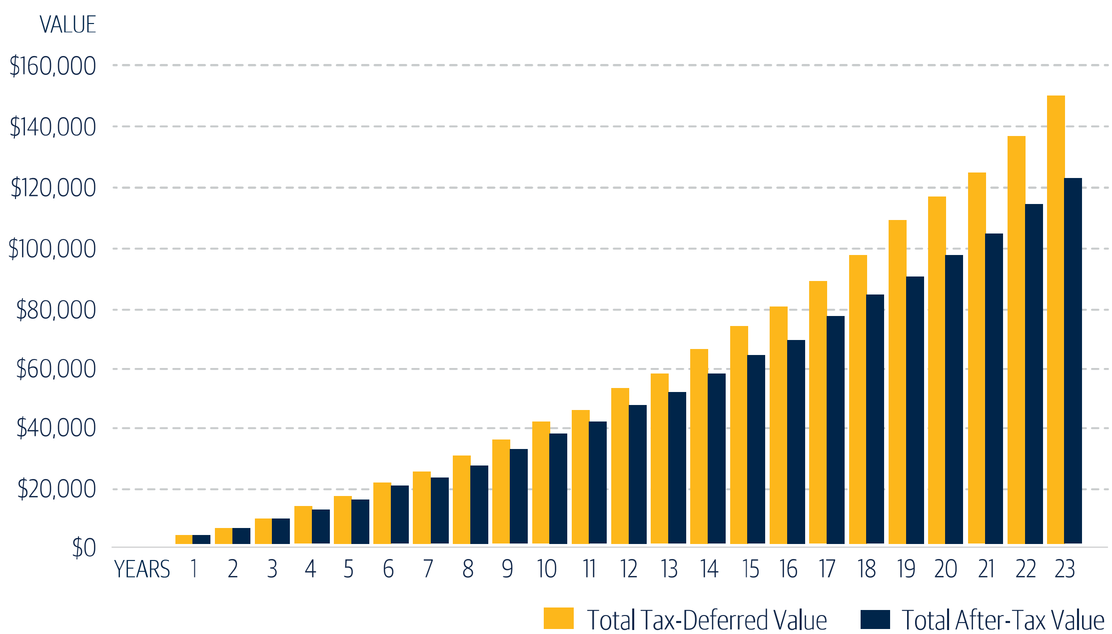
529 COLLEGE SAVINGS PLAN

A 529 plan is a flexible, state-sponsored program that enables parents, grandparents, relatives and friends to invest for a child's higher education on a tax-advantaged basis. Named for the section of the Internal Revenue Code that authorized them, 529 plans offer important advantages:

- **Your college savings grow tax free.** The money you set aside in a 529 plan grows free of federal income taxes (and in some cases state taxes, too). And when money from the account is used for qualified college costs, those distributions are also tax free[1]. Qualified expenses typically include tuition, room and board, fees, books, supplies and equipment.

THE BENEFITS OF TAX-FREE GROWTH

Early and consistent saving into a tax-deferred account reaps exponential benefits. With a steady contribution of $250 per month compounded monthly and a 6 percent annual investment return, your 529 savings accumulates $27,000 more than the same investment in a taxable account.



This hypothetical example assumes a $250 monthly contribution compounded monthly and a 6 percent annual rate of return, contributing through college-attending years. The assumed 6% rate of return is not guaranteed; additionally, all investments carry some level of risk including the potential loss of principal invested. The taxable account assumes a 25 percent federal tax rate. This example is for illustrative purposes only and does not represent the performance of any specific account or investment. It also does not reflect any state taxes, plan fees or sales charges that may apply. If such fees or sales charges were taken into account, returns would have been lower.

- **You decide how to invest your money.** A 529 plan works much like a 401(k) plan: Your savings are invested in a choice of professionally managed investment options. Your account value will go up and down based on the performance of the underlying investments.

[1] If the money is used for a purpose other than qualified education expenses, the earnings portion of the withdrawal would be subject to then-current federal income tax plus an additional 10 percent tax penalty and any applicable state taxes.

- **You can set aside significant sums for higher education.** You can contribute to a 529 plan regardless of how much you earn. You can also fund your child's education how and when you want, up to the lifetime contribution limit of the plan (this varies by state but often exceeds $250,000 per beneficiary). Federal tax rules allow you to contribute up to $14,000 each year per beneficiary ($28,000 for married couples filing jointly) without incurring federal gift taxes.

  A unique feature of 529 plans allows you to gift a lump sum of up to five years' worth of contributions in one year for a maximum of $70,000 for an individual ($140,000 for joint gifts) without gift-tax implications, provided you don't give additional funds to the same child or grandchild within the five-year time period. So even if you've waited to start saving for college, you can still make sizable contributions toward a child's higher education while reaping the tax advantages 529 plans offer.

- **You can get income-tax deductions.** While you may be considering the long-term benefits of a 529 plan, don't lose sight of tax credits you can claim today. In more than 30 states, you can receive either a state income-tax deduction or tax credit for your contribution to the state's 529 plan. Deductions and tax credits vary from state to state, so be sure that you are working with your advisor to select a 529 plan that meets your specific needs.

- **You retain control of your money.** With a 529 plan, you have flexibility in both how you can invest your money and how the funds are used:

  - You can choose any state plan, regardless of where you live[1].

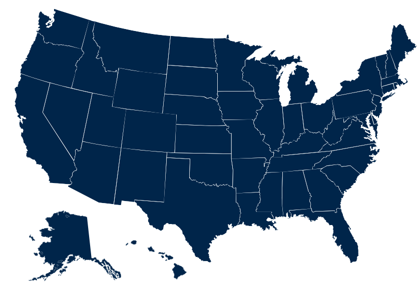
  - The money you save can be used to pay qualified higher education expenses at any accredited educational institution, not just schools in the state sponsoring your plan.

  - You retain control over the account, even after your child turns 18.

  - If your child doesn't need the money because he or she receives a scholarship or decides not to attend college, you can transfer the account to another beneficiary (assuming he or she has not exceeded the lifetime limit) in the same family—including yourself—or leave the money in the account for future use. However, if you elect to withdraw the funds for non-qualified college expenses, you may be required to pay income tax and a 10 percent penalty on the earnings in the account.

DID YOU KNOW?

You can open a 529 plan from another state. Plans typically allow their funds to be used for schools within most states. If your state doesn't offer a tax deduction, it pays to look around. Each state works with different fund providers and will have different investment lineups[1].



KEEP IN MIND

Although grandparent-owned 529s are not included in federal financial aid calculations, any distributions used for college expenses will be counted as untaxed income for the beneficiary and could significantly impact their financial aid requests the following year.

[1] If you choose a state plan where you are not a resident, you may lose that state's tax deduction.

529 CONTRIBUTION LIMITS

Plan Lifetime Limits. In order to qualify as a 529 plan, federal law limits state program contributions in excess of the anticipated cost of a beneficiary's qualified education expenses for that state. In most cases, states are placing limits on colleges with a steep price tag and are also including the cost of graduate school, with the average being between $250,000 and $300,000.

NEED TO SAVE MORE THAN YOUR STATE'S MAXIMUM?

Contribution limits do not always cross state lines. Work with your advisor to determine if opening additional plan(s) in other states is feasible and the right decision for your overall plan.

These limits are per beneficiary, so if there are multiple accounts set up for your child within the same state's plan, the combined contributions cannot exceed the limit. This begs the question, "Can I have accounts for the same beneficiary in different states?" It depends. You will want to work with your advisor or plan administrator to determine your impact, as each state plan is different.

If You Reach the Limit. Although the lifetime limit may seem out of reach for some, families starting early or who have made large lump-sum deposits should pay close attention. If your deposits and market gains put your account over the limit, the money can stay in the account, but you are no longer allowed to make any further contributions. If market conditions decline and the account falls under the limit, contributions would then be allowed again.

A NOTE ABOUT PREPAID 529 PLANS

There is a second 529 plan option, a prepaid tuition plan, which allows you to lock in tomorrow's tuition at today's prices. Although this sounds like a great idea, there are concerns over the longevity of these plans and the flexibility in selecting schools. Make sure you research these plans carefully before making a contribution. A financial advisor can help you determine if a prepaid plan is right for you.

COVERDELL EDUCATION SAVINGS ACCOUNT

A Coverdell Education Savings Account (Coverdell) offers another tax-advantaged way to save for education expenses. As with a 529 plan, your money grows tax free, and you pay no taxes on withdrawals if they're used to pay for qualified education expenses. However, Coverdells differ from 529 plans in a few important ways.

- There are income limits for contributions to any Coverdell; generally you need to make less than $110,000 for single taxpayers or $220,000 for married couples filing jointly.
- Total contributions for the year cannot exceed $2,000 per child. So you need to be careful when accounts are established by different family members for the same child. If total contributions exceed $2,000 in a year, a penalty will be imposed.
- The child must be younger than age 18 when the account is opened, and withdrawals must be completed by the time he or she reaches age 30 (except in the case of a beneficiary with special needs).
- The money contributed can be used to pay for a broad range of qualified expenses, including those for elementary, secondary and post-secondary education. This is in contrast to a 529 plan, which is specifically for higher education costs.
- You can direct your Coverdell contributions to whatever investment vehicles you want, whereas a 529 limits investment options (typically mutual funds only).

INVESTMENTS

Some parents may use an investment account to save for college. This approach provides a great deal of flexibility, as there are no income or contribution limits; assets can be used for any purpose; and you have complete control over your investment selections. Keep in mind, however, that saving in an investment account means you will pay tax on any earnings in the account, even if the money is used to pay for educational expenses.

Although an investment account is not tax advantageous, the flexibility it provides, both when money is contributed and distributed, makes it a great supplement to other saving options.

PERMANENT LIFE INSURANCE

Permanent life insurance can help provide funds to cover educational expenses in two different ways. First, by owning a permanent life insurance policy, you can help ensure that if anything were to happen to you, your goals for your child's education can still be met. Secondly, the flexibility of permanent life insurance also enables you to build up cash value that can be accessed (through withdrawals, loans, or reducing the amount of your death benefit) for any reason, including funding college expenses. The cash value of the policy grows tax free and may be utilized tax and penalty free up to the amount of premiums paid (e.g., not including interest or gains).

UNIFORM GIFT TO MINORS ACT (UGMA)/UNIFORM TRANSFER TO MINORS ACT (UTMA) CUSTODIAL ACCOUNT

UGMA or UTMA custodial accounts let you set aside money in a special type of account specifically for a child. Unlike a 529 plan or a Coverdell, there are no restrictions on how the money can be spent as long as it's for the benefit of the child. For example, you can use money in a custodial account to pay for the child's dance instruction, summer camp or braces.

There are no contribution limits to a custodial account, and you can set aside money regardless of how much income you make. However, the contributions you make are irrevocable—you can't take them back. And once the child reaches the age of majority (18 or 21 in most states), the child can access the account for anything; you no longer have control over how the money is spent. Custodial accounts offer some tax advantages. For 2015, the first $1,050 of investment income is tax free; the next $1,050 is taxed at the child's rate; and any income above $2,100 is taxed at the parent's rate.

ROTH IRA AND OTHER TAX-ADVANTAGED ACCOUNTS

If you have a Roth IRA, your after-tax contributions (not earnings) can be withdrawn income tax- and penalty-free to pay for college expenses. However, any investment earnings you withdraw are subject to federal income tax and possibly a 10 percent penalty, even if that withdrawal is used for qualified educational expenses.

The rules for taking withdrawals from other qualified retirement accounts are similar. If you pull money out of your 401(k) or other tax-advantaged account, you'll not only sacrifice the tax-deferred growth of that money, but you'll also owe income taxes. In addition, if you're not yet age 59½, you may be subject to a 10 percent early withdrawal penalty on the withdrawal—though taking money from your IRA to pay for qualified education expenses at a postsecondary institution is an exception to the early withdrawal penalty.

ADDITIONAL CONSIDERATIONS

COLLEGE OR RETIREMENT: WHICH SHOULD YOU SAVE FOR FIRST?

Although your wish may be to fully fund your child's education, don't allow that goal to put your own retirement at risk. It's much like the instructions given by flight attendants when you travel by air: In case of emergency, put your oxygen mask on first before helping your child. If you don't take care of funding your own retirement now, you may end up having to work longer, changing your vision of what retirement means to you, or even having to rely on your kids in retirement. Children have options for funding their education with loans and scholarships. Retirees don't.

FINANCIAL AID

Financial aid is available both through the federal government and through the schools to help families pay for educational expenses. Thirty-eight percent of undergraduates receive federal aid through loans, according to the College Board[1].

Financial aid falls into the following categories:

- **Grants and scholarships**. Types of aid that do not need to be paid back. Some scholarships are merit-based (such as academic, athletic, or certain skills/traits), while others can be geared toward groups of people (for example, ethnicity- or gender-based, where parents work, etc.) These can be awarded at the school level or through federal programs. Your high school counselor, the financial aid office of the school, the parents' employers and the U.S. Department of Labor scholarship search tool are just a few places to begin a scholarship search.

- **Loans.** All loans require repayment, but how the loan is awarded, the way the loan accrues interest and the repayment schedule can differ based on the type of loan:

LOAN TYPE	WHO'S ELIGIBLE?	HOW INTEREST ACCRUES	WHEN REPAYMENT BEGINS
FEDERAL PERKINS LOAN	Undergraduates and graduate students with exceptional financial need. Not all schools participate in this program.	Fixed-interest loan with interest accruing six months following graduation or if student falls below half-time status.	Six months after student leaves school or falls below half-time status. The lender is the school; payments are made directly to the school.
FEDERAL DIRECT SUBSIDIZED LOANS	Undergraduate students who demonstrate financial need. The school determines the amount a student can borrow.	Fixed-interest loan with interest accruing six months following graduation or if student falls below half-time status.	Six months after student leaves school or falls below half-time status. The lender is the U.S. Department of Education.
FEDERAL DIRECT UNSUBSIDIZED LOANS	Undergraduate and graduate students. Financial need does not need to be demonstrated.	Fixed-interest loan that begins accruing immediately from date of issue.	Student can choose to pay the interest while in school or can add it to principal loan balance. Principal repayment begins immediately or after deferment (six months after graduating or if student falls below half-time status).
FEDERAL DIRECT PLUS LOANS	Graduate or professional students and parents of dependent undergraduate students.	Fixed-interest loan that begins accruing immediately from date of issue.	Student can choose to pay the interest while in school or can add it to principal loan balance. Principal repayment begins immediately or after deferment (six months after graduating or if student falls below half-time status).
PRIVATE LOANS	Based on credit of the borrower. If a student's income is below a certain level or he or she does not qualify, a co-signer is typically required.	Varies based on the loan.	Varies based on the loan and typically begins as soon as the loan is issued.

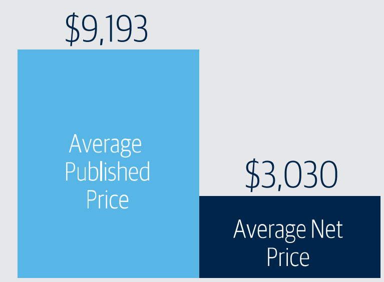
[1] The College Board, "Financial Aid FAQs" (https://bigfuture.collegeboard.org/pay-for-college/financial-aid-101/financial-aid-faqs)

Needs-based eligibility for federal loans is based on a formula that takes into account the difference between the cost of attendance (typically tuition, books, fees, room and board) at a particular school and your expected family contribution (EFC). Generally, parents are expected to use up to 5.64 percent of available assets and between 22 and 47 percent of their income (based on a sliding scale) each year to help pay for their child's education costs. Student-owned assets are counted at a 20 percent rate, and their income is counted at 50 percent.

Don't assume your child won't qualify for some amount of financial aid—even if you have significant income and/or assets. That's because not all assets count equally for financial aid calculations. For example, retirement assets (such as a 401(k), IRAs, pensions and profit-sharing plans) and life insurance cash values are not included in the EFC calculation, while checking, savings and investment accounts are. Also included are 529 college savings and prepaid plans and assets in a custodial account such as an UGMA/UTMA account. However, the titling and ownership of the accounts is also a factor in how much the account will impact the EFC calculation. Your financial advisor can help you evaluate your assets, your saving options and their impact on the contribution calculated for your family.

To begin the financial aid process, you will need to complete the Free Application for Federal Student Aid (FAFSA). Some schools, typically private, also have their own application, which you will need to complete in addition to the FAFSA. To learn more about the FAFSA, EFC and your eligibility for aid, visit the government's official FAFSA site.

UNDERSTANDING NET PRICE



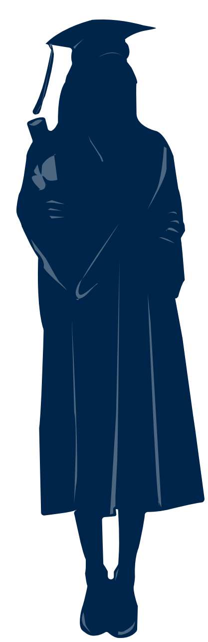
Net price is the difference between the full cost to attend a college minus any grants and scholarships awarded from that college. For 2014-2015, the College Board estimates the average published price of a four-year public institution was $9,139, yet the net price is about $3,030.

The same goes for private colleges. Undergraduates received an average of $18,870 in grant aid from private colleges to help them cover tuition and fees.

WHICH PLAN IS RIGHT FOR YOUR FUTURE GRADUATE?

As you think about your options, one of the first questions to consider is how much of your child's higher education expenses you plan to cover. Some families want to fund as much of the cost as they can for their children; others believe it's important for students to share some of the expense of their education. Either way, you and your children may need to pool money from a variety of sources to pay for college.

We recommend that the funding strategies discussed be considered in the context of your overall financial plan. A financial advisor can run various scenarios to show you how your money will work best for you when considering your family's situation. To create or update your educational savings plan, contact your financial advisor today.



APPENDIX

COMPARE YOUR OPTIONS

What's the best way to save for college? The answer is different for each family. When determining which plan is right for you, it's important to carefully compare the pros and cons of each option. Use the table below to compare the main college savings options.

	529 SAVINGS PLAN	COVERDELL EDUCATION SAVINGS ACCOUNT	CUSTODIAL ACCOUNT (UGMA/UTMA)	INVESTMENTS	PERMANENT LIFE INSURANCE	ROTH IRA
CONTRIBUTION LIMIT	No annual contribution limits*, lifetime maximum varies by state	$2,000 annually per beneficiary combined from all sources	No limit	No limit*	Premiums are paid on permanent life insurance, based on, among other factors, the size of the policy, which is subject to financial underwriting**	Up to $5,500 annually ($6,500 for taxpayers age 50 and older) per account
INCOME RESTRICTIONS	None	Ability to contribute phases out	None	None	None	Ability to contribute phases out
FEDERAL TAX ADVANTAGES	Earnings are tax free if used for qualified education expenses	Earnings are tax free if used for qualified education expenses	$1,000 in earnings are tax free	None	Cash value grows tax free; portion of the cash value made up of premiums may be withdrawn tax and penalty free	Contributions are withdrawn without penalty; if the account has been open 5+ years, earnings would be taxed but avoid 10% penalty if withdrawn for qualified expenses
STATE TAX ADVANTAGES	Varies from state to state	None	None	None	None	None
HOW MAY FUNDS BE USED?	For qualified higher education expenses only	For qualified K-12 and college expenses only	For any purpose that benefits the child	For any purpose	Cash values can be used for any purpose	For retirement, first-time home purchase ($10k max) and qualified higher education expenses only
INVESTMENT CHOICES	Typically plan provides several investment options	No restrictions	No restrictions	No restrictions	None	Unlimited
ACCOUNT CONTROL	Contributor	Contributor	Custodian until child reaches age of a majority	Account owner	Policyowner	Account owner
CAN YOU CHANGE THE BENEFICIARY?	Yes, to another member of beneficiary's family	Yes, to another member of beneficiary's family	No, represents an irrevocable gift to the child	Not applicable	Yes	Yes

* Estate exclusion and federal gift-tax provisions apply

** Modified endowment rules may apply

	529 SAVINGS PLAN	COVERDELL EDUCATION SAVINGS ACCOUNT	CUSTODIAL ACCOUNT (UGMA/UTMA)	INVESTMENTS	PERMANENT LIFE INSURANCE	ROTH IRA
HOW THE SOLUTION AFFECTS FEDERAL FINANCIAL AID	Counted as an asset of parent if owner is parent or dependent student	Counted as an asset of parent if owner is parent or dependent student	Counted as student's asset at age of majority	Counted as asset of the owner	Life insurance owned by a parent is typically not counted as an available asset; however, any withdrawals of cash value are treated as income and count against financial aid in the year after they are taken, and loans may or may not count depending upon the school	Not counted as an available asset; however, withdrawals are considered income and can impact financial aid in the year after they are taken
OTHER CONSIDERATIONS	• Gift- and estate-tax benefits • Funds generally can be used at any accredited college or university in the U.S. and some international institutions	Contributions must end once the child reaches age 18, and withdrawals end when child reaches age 30	Contributions are irrevocable	Assets can be used for more than one child	Withdrawals, surrenders and loans will reduce the policy death benefit	Withdrawals will reduce the amount the owner has available for retirement

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. No investment strategy can guarantee a profit or protect against a loss.

This white paper is not intended as legal or tax advice. Northwestern Mutual and its financial representatives do not give legal or tax advice.

Each method of utilizing your Permanent Life Insurance policy's cash value has advantages and disadvantages and is subject to different tax consequences. Surrenders of, withdrawals from and loans against a policy will reduce the policy's cash surrender value and death benefit and may also affect any dividends paid on the policy. As a general rule, surrenders and withdrawals are taxable to the extent they exceed the cost basis of the policy, while loans are not taxable when taken.

Loans taken against a life insurance policy can have adverse effects if not managed properly. Policy loans and automatic premium loans, including any accrued interest, must be repaid in cash or from policy values upon policy termination or the death of the insured. Repayment of loans from policy values (other than death proceeds) can potentially trigger a significant tax liability, and there may be little or no cash value remaining in the policy to pay the tax. If loans equal or exceed the cash value, the policy will terminate if additional cash payments are not made.

Policyowners should consult with their tax advisors about the potential impact of any surrenders, withdrawals or loans.

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