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SALES KIT

In this kit:

Social media images & posts | Average college costs (2023 update) | Producer & consumer guides

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Social Media Posts & Sharable Graphics

Text for Posts

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

The average cost of college in the United States is $35,551 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 kids to college? Start a permanent life insurance policy when your kids are young - this gives you time to build cash value in order to borrow funds when they go to college. Contact me today to find out how to make this strategy 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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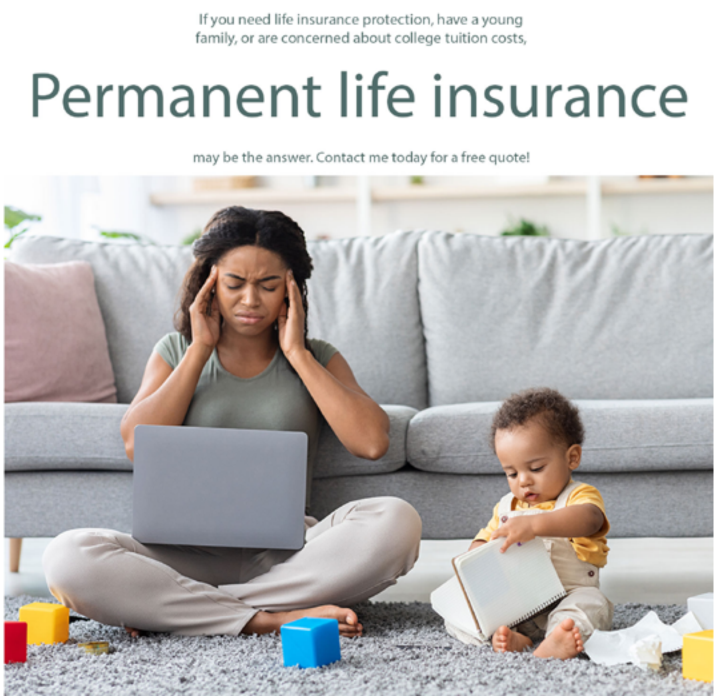

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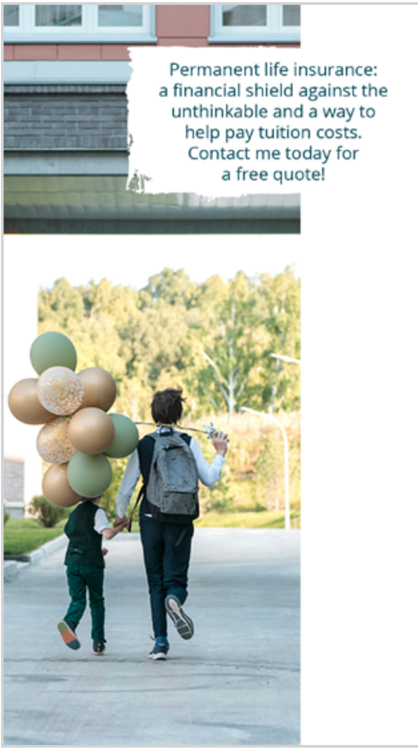
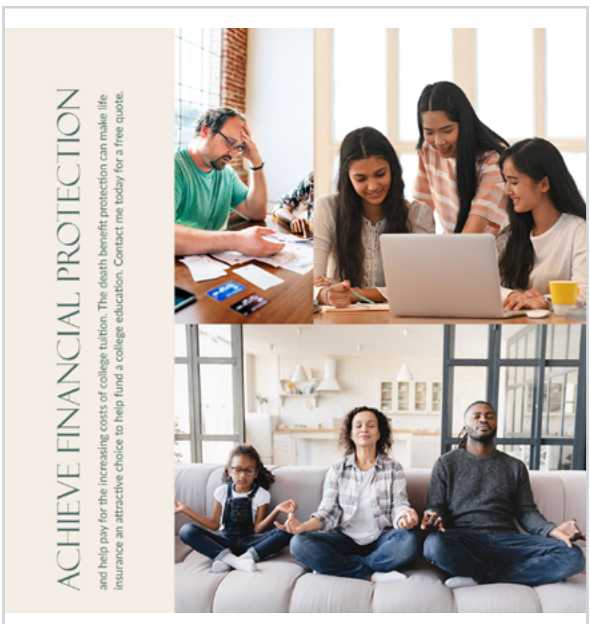




Average Cost of College & Tuition

By Melanie Hanson |

Last Updated: April 3, 2023

Fact Checked | Cite this Webpage

Report Highlights. The average cost of college* in the United States is **$35,551** 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 **7.1%**.
- The average in-state student attending a public 4-year institution spends **$25,707** for one academic year.
- The average cost of in-state tuition alone is **$9,377**; out-of-state tuition averages **$27,279**.
- The average private, nonprofit university student spends a total of **$54,501** per academic year, **$37,641** of it on tuition and fees.

- Considering student loan interest and loss of income, the ultimate cost of a bachelor's degree can exceed **$500,000**.

**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

Institution Type	Cost of Tuition	Cost of Attendance**
4-Year In-State	$9,377	$25,707
4-Year Out-of-State	$27,279	$44,014
2-Year In-State	$3,862	$15,862

Annual Cost of College, Private

Institution Type	Cost of Tuition	Cost of Attendance**
4-Year	$37,641	$54,501

Institution Type	Cost of Tuition	Cost of Attendance**
Nonprofit		
4-Year For-profit	$18,244	$33,528
2-Year Nonprofit	$17,968	$33,270
2-Year For-profit	$15,765	$27,246

***Cost of Attendance does 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 $25,707 per year or $102,828 over 4 years.
- Out-of-state students pay $44,014 per year or $176,056 over 4 years.

- Private, nonprofit university students pay $54,501 per year or $218,004 over 4 years.
- While 4 years is the traditional period to earn a bachelor's degree, just 39.8% of bachelor's degree-seeking students graduate within that time.
- 60.9% of confirmed bachelor's degree earners graduate within 6 years; the 6-year average cost of attendance is $207,384.
- Students that are unable to work full-time stand to lose a median annual income of $42,068.
- Student borrowers pay an average of $2,186 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 a bachelor's degree may be as high as $509,434.

Total Cost of a Degree, Public

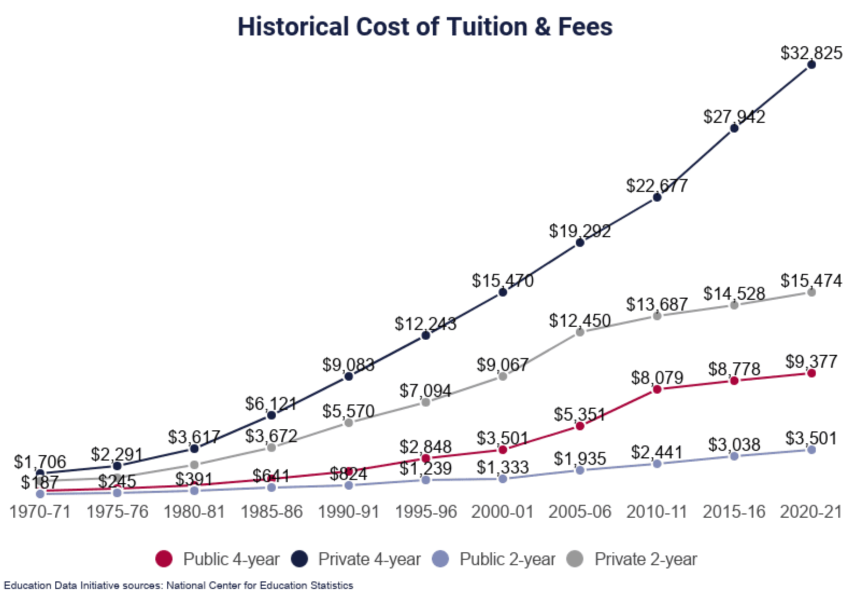
Institution Type	Total Cost of Tuition	Total Cost of Degree†
4-Year In-State	$37,508	$102,828
4-Year Out-of-State	$109,116	$176,056
2-Year In-State	$7,724	$31,724

Institution Type Total Cost of Tuition Total Cost of Degree†

Total Cost of a Degree, Private

4-Year Nonprofit	$150,564	$218,004
4-Year For-profit	$72,976	$134,112
2-Year Nonprofit	$35,936	$66,540
2-Year For-profit	$31,530	$54,492

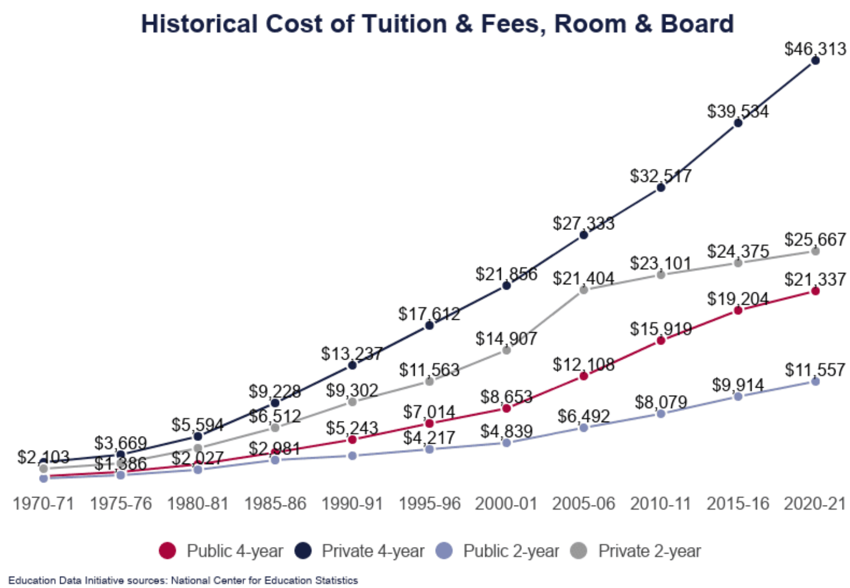
† Total Cost of Attendance does not account for potential lost income nor student loan interest.



Average Cost of Tuition

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

- The average cost of tuition at any 4-year institution is $19,020 or 53.5% of college costs.
- At public 4-year institutions, the average in-state tuition and required fees total $9,377 per year or 36.5% of the cost of attendance.
- Public 4-year out-of-state tuition and fees average $27,091 or 62.4% of college costs.
- Among private 4-year institutions, the average tuition and fees at a nonprofit college total $37,641 annually, which is equivalent to 69.1% of a student's college costs.
- At for-profit institutions, tuition and fees average $18,244 annually, which is equivalent to 54.4% of the cost of attendance.
- The average cost of tuition and fees at any 2-year institution is $4,289 or 26.0% of the cost of attendance.
- At public 2-year institutions or community colleges, in-district tuition and fees average $3,862 annually, which is equivalent to 24.3% of the cost of attendance.
- Also at public institutions, out-of-state students pay an average of $8,256, which is equivalent to 40.8% of the cost of attendance.
- At private 2-year institutions, students pay $17,968 in annual tuition and fees to attend nonprofit schools; tuition is 54.0% of the cost of attendance.
- Private, for-profit 2-year colleges charge $15,765, which is 57.9% of the cost of attendance.



Historical Average Cost of Tuition

The cost of tuition has increased significantly over the last 40 years even after adjusting for inflation. See our report on College Tuition Inflation to learn more.

- In 1963, the annual cost of tuition at a 4-year public college was $243, which had the same buying power as $2,372.42 in December 2022 currency values.
- From 1963 to 2022, the cost of tuition increased by 295.2% after adjusting for inflation.
- Between 2010-11 and 2020-21, before adjusting for inflation, the average tuition increased by 23.6% at 2-year colleges.
- During the same period, the average tuition increased by 41.9% at public 4-year institutions and 35.5% at private, nonprofit 4-year institutions.
- From 2000 to 2020, average postsecondary tuition inflation outpaced wage inflation of 111.4%.

- In 1963, the cost of a 4-year-degree from a public university was $929.‡
- In 1989, the same degree cost $4,975.‡
- As of the 2020-21 academic year, $76,080 is the price of a bachelor's degree.‡

‡*Cost of tuition and required fees assuming an in-state public institution attendee completes their bachelor's degree program in 4 years.*

Average Cost of Books & Supplies

Some programs require more expensive materials than others, so the cost of books and supplies varies widely. See our report on the Average Cost of College Textbooks for more.

- The average postsecondary student spends between $628 and $1,471 annually for books and supplies as of the 2021-2022 academic year.
- At public 4-year institutions, students pay an average of $1,230 annually on books and supplies.
- Books and supplies at private, non-profit institutions average $1,228; at private, for-profit institutions, the average cost is $1,065.
- At public 2-year institutions, students pay an average of $1,471 each year for books and supplies.
- At private, nonprofit institutions, books and supplies average $958; at private, for-profit 2-year colleges, the average cost is $1,441.

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 $8,556 to $12,870.
- At public 4-year institutions, students living on campus pay an average of $11,557 annually for room and board; off-campus boarders pay $10,941.
- At private, nonprofit institutions, on-campus boarders pay an average of $12,857 per academic year; students living off campus pay $10,429.
- At private, for-profit institutions, on-campus rooms, and board average $9,092; students living off-campus pay an average of $8,556.
- There is a wider variation in room and board costs at 2-year institutions, with costs ranging from $7,111 to $11,804.
- At public 2-year institutions, students living on campus pay an average of $7,111 for their annual room and board; students living off campus pay $9,902.
- At private, nonprofit 2-year colleges, on-campus boarders pay $11,804 annually; off-campus boarders pay $9,558.
- Private, for-profit institutions charge $8,910 on average for room and board; students living off campus pay $8,468.

Most Expensive 4-Year Private Nonprofit Universities

Institution	Location	Tuition
Columbia University in the City of New York	New York, NY	$65,524
Bard College at Simon's Rock	Great Barrington, MA	$61,600
Franklin and Marshall College	Lancaster, PA	$65,652
Vassar College	Poughkeepsie, NY	$63,840
Amherst College	Amherst, MA	$63,500
Colorado College	Colorado Springs, CO	$64,554
Tufts University	Medford, MA	$63,804
Brown University	Providence, RI	$62,680
Reed College	Portland, OR	$64,450
University of Chicago	Chicago, IL	$61,179

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.

- Most tallies of college costs neglect to include the price of SAT prep courses, the most expensive of which can cost $5,000 or more.
- Additional expenses at 4-year institutions range from $2,774 to $5,294.
- Students living on campus at a public 4-year institution pay an average of $3,543 in additional annual expenses.
- Students who live off campus may expect to pay $4,451 if they do not live with family; for students living with family, additional expenses average $4,342.
- At private, nonprofit 4-year institutions, students living on campus spend an average of $2,774 on additional expenses.
- Students living off-campus alone or with non-family members spend $5,294 on additional living expenses; those living off-campus with family spend $4,295.
- At private, for-profit institutions, additional expenses average $5,126 for students living on campus.
- Students who live off campus spend an average of $4,622; those who live off campus with family spend $4,635.
- At 2-year institutions, additional expenses average between $1,130 and $5,023.
- Students living on campus at a public 2-year institution pay an average of $3,419 in additional annual expenses.

- Students living off-campus pay $4,333 in additional expenses; students living off campus with family have an average of $4,342 in annual expenses.
- Students living on campus at 2-year private, nonprofit institutions pay an average of $2,541 in additional annual expenses.
- Students living off-campus alone or with non-family members spend $4,816, while students living off-campus with family members spend $4,572.
- Students at private, for-profit 2-year institutions spend an average of $1,130 on additional expenses if they live on campus.
- Students living off-campus spend $5,023 if they do not live with family members; students who live off-campus with family spend an average of $4,190.

Most Affordable 4-Year Private Nonprofit Universities

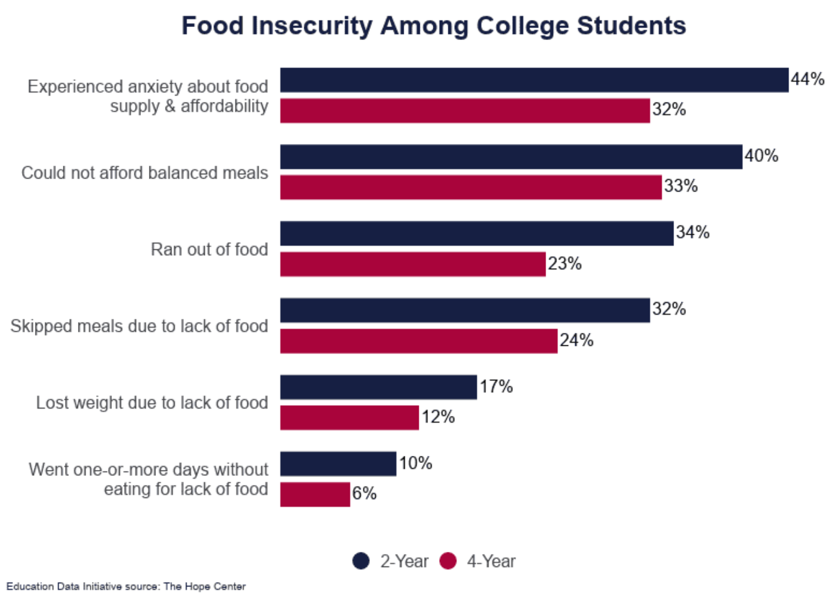
Institution	Location	Tuition
Curtis Institute of Music	Philadelphia, PA	$6,650
Grace Mission University	Fullerton, CA	$3,120
Sioux Falls Seminary	Sioux Falls, SD	$3,600
Universidad Pentecostal Mizpa	Rio Piedras, PR	$4,220
United Tribes Technical College	Bismarck, ND	$4,252

Institution	Location	Tuition
Brigham Young University-Idaho	Rexburg, ID	$4,536
Pacific Bible College	Medford, OR	$4,370
Huntsville Bible College	Huntsville, AL	$4,230
Universidad Ana G. Mendez-Online Campus	San Juan, PR	$11,965
Shiloh University	Kalona, IA	$5,250

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 median weekly income for a high school graduate is $875, or $45,500 per year.
- In four (4) years, the average worker with a high school diploma earns $182,000.
- The unemployment rate among high school graduates is 3.7%, which is 85% higher than the unemployment rate among bachelor's degree holders.
- The unemployment rate among high school graduates is 18% lower than unemployment among workers who did not complete high school.
- Among individuals aged 16 years and older, 16- and 17-year-olds have the highest unemployment rate of 10.9%.

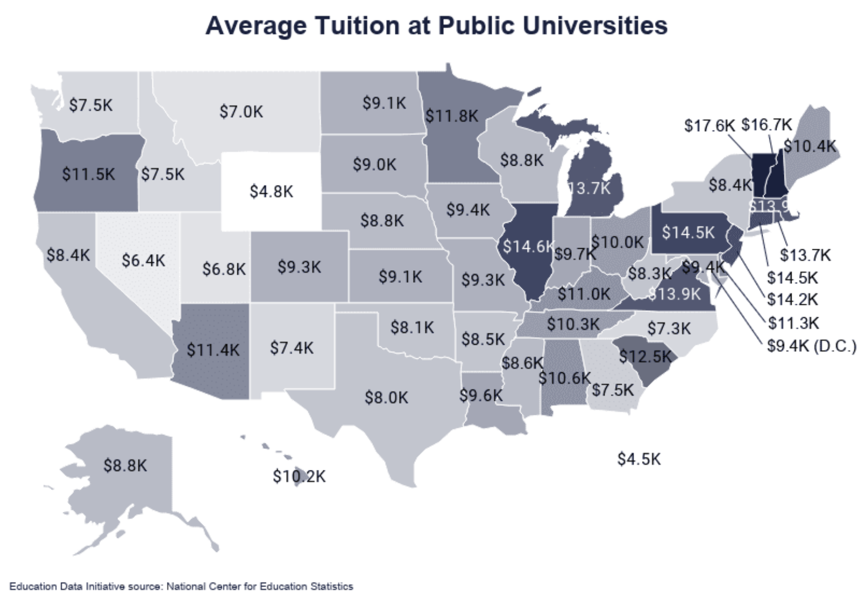


Average Cost of Borrowing for College

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

- The average federal student loan debt is $37,340.
- In one year, 31.8% of students borrow money to pay for college.
- The average student borrows more than $35,000 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 approximately $15,000.

- 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 universities 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	Tuition + Room & Board
Vermont	$20,304	$35,258
New Hampshire	$19,824	$34,152
Illinois	$17,180	$30,671
Pennsylvania	$18,500	$32,570
Connecticut	$16,504	$32,761
New Jersey	$17,067	$33,721
Massachusetts	$16,317	$32,825
Virginia	$16,229	$29,801
Michigan	$15,825	$28,627
Rhode Island	$15,576	$30,417
South Carolina	$10,671	$20,559
Minnesota	$13,963	$25,686
Oregon	$12,852	$28,028
Arizona	$13,160	$28,544
Delaware	$13,182	$28,950
Kentucky	$12,941	$25,909
Alabama	$12,269	$24,362

State	Tuition & Fees	Tuition + Room & Board
Maine	$12,008	$24,315
Tennessee	$12,080	$24,198
Hawaii	$10,197	$25,974
Ohio	$11,769	$26,609
Indiana	$11,015	$23,753
Louisiana	$11,375	$23,174
Maryland	$11,545	$26,747
National Average	$11,713	$25,053
Iowa	$11,140	$23,544
Missouri	$10,687	$22,266
Colorado	$10,868	$26,368
Kansas	$10,801	$22,702
North Dakota	$10,254	$20,739
South Dakota	$10,671	$20,560
Alaska	$9,861	$23,318
Wisconsin	$10,416	$21,137
Nebraska	$10,200	$23,200
Mississippi	$10,227	$22,677
Arkansas	$10,327	$21,659
New York	$10,063	$28,376
California	$9,737	$27,381

State	Tuition & Fees	Tuition + Room & Board
West Virginia	$9,740	$22,622
Oklahoma	$9,519	$20,157
Texas	$10,219	$22,238
Georgia	$8,863	$22,052
Washington	$8,519	$23,588
Idaho	$8,935	$19,418
New Mexico	$8,500	$19,246
North Carolina	$8,590	$20,882
Montana	$8,281	$17,375
Utah	$7,963	$14,653
Nevada	$7,158	$21,378
District of Columbia	$7,155	Unavailable
Wyoming	$5,642	$17,710
Florida	$5,304	$18,110

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.

- Federal grants and contracts provide public postsecondary institutions with 7.76% of their revenue.

- 4-year public institutions receive 8.47% of their revenue from federal contracts.
- Federal grants and contracts pay for 3.00% of 2-year public institutions' revenue.
- States governments fund an average of 2.27% of public postsecondary revenue.
- 19.5% of revenue comes from tuition, some of which is federally subsidized.

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

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. Colleges do not always accurately represent off-campus living costs, either.

Stanford University lists average local rent prices from 2018 on its student housing website. According to Stanford, one year in a shared 2-bedroom apartment within the San Francisco-San Jose urban sprawl would cost each student between $19,200 and $22,770. An average apartment located midway between the two cities, however, could cost as much as $27,762 for a 12-month shared lease. Room and board on campus costs between $10,827 and $13,716 for an academic year.

The University of California-Berkeley, meanwhile, estimates that students pay up to 12% more living in an on-campus residence hall than they do in an off-campus apartment. This estimate, however, makes a number of assumptions regarding personal expenses, including health insurance, and the average local rent. UC estimates students pay roughly $20,000 for apartment rental, whereas the annual cost of a shared 2-bedroom may be closer to $23,750 each.

Such discrepancies can make budgeting difficult. Furthermore, other expenses that add to the cost of living vary from market to market. Groceries purchased in Iowa are much less expensive than groceries in Manhattan's Lower East Side. Students may be able to temporarily reduce their cost of living using financial aid. Using student loans for living expenses, however, ultimately increases the student's loan debt, including interest.

- 60% of college students have experienced base needs insecurity, meaning they are at risk of homelessness, hunger, or reduced access to basic needs.
- In the Fall of 2020, 29% of students at 4-year colleges experienced food insecurity within the previous 30 days.
- Among students at 2-year colleges, 39% reported experiencing food insecurity within the last 30 days.
- 14% of college students report experiencing homelessness in a year.
- 48% of college students experience housing insecurity in one year.

- 34% of students applied for emergency aid in the Fall of 2020; 94% of them received some form of aid.

Sources

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3. U.S. Bureau of Labor Statistics (BLS), Career Outlook
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8. BLS, Consumer Price Index Inflation Calculator
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12. PayScale, Cost of Living Calculator
13. University of California – Berkeley, Student Budgets (Cost of Attendance)

14 The Hope Center, Hope for College: National Reports

15 BLS, Labor Force Statistics from the Current Population Survey

16 ED Office of Federal Student Aid, Federal Student Loan Portfolio

17 Usual Weekly Earnings Summary – 2022 Q05 Results

18 Unemployment rates for persons 25 years and older by educational attainment

19 Tuition & Fees | Columbia University

20 Tuition & Fees | Simons Rock

21 Tuition & Fees | Franklin & Marshall

22 Tuition & Fees | Vassar College

23 Tuition & Fees | Amherst College

24 Tuition & Fees | Colorado College

25 Tuition & Fees | Tufts Admissions

26 Tuition & Fees | Brown University

27 Tuition & Fees | Reed College

28 Tuition & Fees | UChicago

29 What do universities do with the billions they receive from the government? – USAFacts

30 Curtis Institute of Music Net Price Calculator

31 Tuition & Financial Aid – Grace Mission University

32 Tuition & Financial Aid – Kairos University

33 Tuition & Financial Aid – Mizpa

34 College Cost Calculator – United Tribes Technical College

35 Cost of Attendance: BYUI

36 Tuition & Financial Aid: Pacific Bible College

37 Financial Aid – Huntsville Bible College

38 Net Price Calculator | AGM University

39 Shiloh University 2023 Tuition & Fees.

EDUCATION DATA INITIATIVE

We're a team of researchers who believe important discussions in education deserve to start from a place of fact, not opinion. From hot button topics like student loan debt to high school graduation rates, our mission is to make sure the data surrounding these topics is open & accessible.

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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
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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

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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.

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

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.
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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.
4 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.
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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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Paying for College

A Practical Guide for Families

James Mahaney, Vice President, Strategic Initiatives

PART OF A SERIES ON PAYING FOR COLLEGE

Updated 2021 Edition

Prudential

Table of Contents

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. Currently, 56 percent of outstanding student debt is attributable to households with a graduate degree.[5]

In total, outstanding student loan debt in the United States now stands at $1.55 trillion.[6] This amount has tripled over the last ten years.[7] The consequences are becoming hard to ignore. By some measures, approximately a 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. A third of outstanding student loan debt is held by individuals 40 and older.[12] Three million Americans age 60 and older carry unpaid student loans taken out for themselves or their children.[13]

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.[14] 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.[15]

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.[16] 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.[17]

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.[18]

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 $259 billion in financial aid issued during the 2019-2020 school year, federal grants accounted for $41 billion. Colleges, states, employers, and other private organizations issued another $96 billion in grants.[19]

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" because 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.[20]

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.

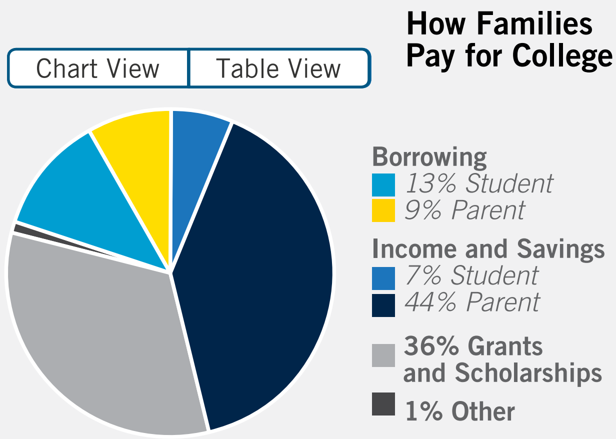
Estimated Family Contribution (EFC). The Estimated Family Contribution is a defined measure of a family's financial strength, primarily based on income and assets. It is used to determine a student's eligibility for need-based aid. The federal government's method of calculating EFC is the most widely 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 because those must be repaid.[21]

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. Thirteen percent of the cost is funded by student borrowing, 9 percent by parent borrowing, 7 percent from student income and savings, 44 percent from parent income and savings, 36 percent by grants and scholarships, and 1 percent from contributions from other relatives.[22]



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.[23]

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, because 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.[24] 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 1 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.[25]

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.[26]

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: Because the FAFSA is filed as early as October 1, 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 2021-2022 year would typically complete the FAFSA in October or November of 2020, when he or she is a senior in high school. This means the base year for FAFSA and income purposes would be 2019. 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 2019, 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 2021-2022 school year, it is $6,970.[27] Here's an example. A student who had income of, say, $9,000 in 2019 would subtract $6,970 from that sum and then multiply the result by 50 percent to determine their available income. In this case, it would be $1,015. (Actual income of $9,000 less the $6,970 income protection allowance is $2,030, and 50 percent of $2,030 is $1,015.)

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 2021-2022 school year, for example, a parent with one college student and five members in the household would have an income protection allowance of $35,270.[28] 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.[29] In addition, allowances are permitted for Social Security taxes, federal income taxes, and state and other taxes.[30]

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.[31]

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	–$35,270
Employment expense allowance	–$4,000
Total allowances	**–$55,360**
Available Income (Income – Allowances)	**$6,190**
Rate at which Parents' Income Counts in EFC	**X 0.22**
Parents' Contribution from Income in EFC	**$1,362**

Note: Example ignores parents' assets. Also, where parental income is less than $27,000, and the parents are not required to file a tax return or can file using either form 1040A or 1040EZ, the EFC is $0.[32]

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.[33] 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.[34]
- 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 the 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.[35] In addition, 14 percent of public colleges report they use the Institutional Methodology together with the Federal Methodology to determine aid.[36] 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.[37] 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.[38] 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.[39]

Some students may find they qualify for less college-awarded financial aid under the Institutional Methodology than they would under 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.[40]

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.[41] According to the National Association for College Admission Counseling, 15 percent of public colleges and 63 percent of private colleges utilize preferential packaging.[42]

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.[43] 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.[44] 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.[45] 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.[46]

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 2020-2021 academic year the limit is $6,345. 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.[47] 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, 2020, and June 30, 2021, carry a 5.30 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.[48] 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.[49] 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.[50]

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.[51] 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.[52] 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.[53]

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.[54]) 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.[55] 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 $58,000 (in 2019), while a partial credit is available to those earning between $58,000 and $68,000. For married couples, the full credit is available to those filing a joint return with a MAGI of up to $116,000, while a partial credit is available to couples earning between $116,000 and $136,000.[56]

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.[57] 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 $70,000 if they are filing taxes as a single person or head of household. It is partially deductible if their MAGI is between $70,000 and $85,000.[58] For married couples filing a joint return, the full deduction is available to those with a MAGI under $140,000 and partially deductible for those with a MAGI between $140,000 and $170,000.[59] 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.[60]
- 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 because 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 because 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.[61]

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, because 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 because 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.[62]

As with divorced parents, a single parent intending to get married may wish to consider when the marriage takes place because 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 2021 after getting married at the beginning of December 2020 to someone earning $100,000. The FAFSA will look back at income in 2020, 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 2021 to get married, only his or her 2020 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.[63]

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.[64] The loan is repaid over a period of 20 years. The borrower must demonstrate financial hardship to enroll in the plan,[65] 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.[66]

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.[67] 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.[68]

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.[69]

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.

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Funding college with life insurance

In the early 90s, I bought two variable universal life (VUL) insurance policies that provided death benefit coverage for both me and my husband. We had a one-year-old son and, as a new mom, I wanted to make sure he was financially protected if anything were to happen to either one of us. I'm so glad I did, because 30 years later, I was able to use the cash values in those policies to help put what turned out to be four boys through college.

Initiate conversations with clients

When it comes to planning for college savings, there are many options to consider. Ask your clients a few simple questions to help narrow the focus, such as:

- Is it important to maintain control of your investment if future needs change?
- Are you concerned with protecting your investment from taxes?
- Do you want flexibility with regards to what the money can be used for and when?

If they answer yes to these questions, permanent life insurance might be a good fit. What most clients don't know is that many life insurance policies have both living benefits and death benefits.

Focus on the value of cash value

One of those living benefits is cash value. If a policy is structured properly, those cash values can be accessed tax-free via policy loans.[1] So, how do we design the solution to build up enough cash value to take a loan for college payments?

1. **Start early.** The policy should be purchased as far in advance as possible for when cash values will be used for college payments. This will allow time for cash values to accumulate.
2. **Structure the policy to identify the amount of insurance needed and what your client can afford in monthly premiums.** Identify what percentage of those premiums goes to cover the cost of insurance and what accumulates as cash value. The type of policy purchased will determine how the cash value accumulates.
3. **Suggest automating premium payments.** Setting up automatic monthly deductions to pay premiums will help keep the policy on track. Once the loan is taken, add regular loan payments to that deduction.

There will be interest charges on the loan; however, there is typically a credit from the insurance carrier on the amount loaned from the policy. This is called a zero-spread loan and most insurance carriers offer this type of benefit for loan interest.

While permanent life insurance isn't the only solution to put kids through college, it offers unique flexibility with no restrictions on who can benefit from it or what the asset can be used for, while also offering a death benefit in the case of an unexpected passing.

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Saving for College: Life Insurance or 529?

The pros and cons of two ways to fund a child's education

By DANIEL KURT Updated May 04, 2023

Reviewed by CHARLENE RHINEHART

Fact checked by MARCUS REEVES

Most families need a long-term savings plan if they hope to help their children avoid a mountain of student loan debt. For many households, the method of choice is a tax-advantaged 529 plan. But permanent life insurance, which has a tax-deferred savings component, is a possibility too, as many insurance agents will eagerly tell you. Here's a look at both options for establishing college funds for kids.

KEY TAKEAWAYS

- 529 plans and permanent life insurance are two ways to create college funds for kids; both have pros and cons.
- A 529 plan allows tax-deferred saving with tax-free withdrawals. The downside is that it counts as an asset when you apply for financial aid, while a life insurance policy doesn't.
- Permanent life insurance includes a savings feature that can be used for college expenses; the downside is costly fees.

How 529 Plans Work

State-run 529 plans are similar to a Roth 401(k) or Roth IRA, but are intended for education rather than retirement savings. Through a 529 savings plan, you can invest in a selection of mutual funds, and your earnings will grow tax-deferred. So long as you use the money for what the Internal Revenue Service (IRS) considers qualified education-related expenses, your withdrawals will be tax-free.[1]

Most states also offer a state tax deduction or credit for your contributions to their plans, which only adds to their appeal. Unfortunately, there is no federal deduction or credit for your contributions.

While the 529 is in some ways the gold standard when it comes to putting away money for college, it's not the only path that offers tax benefits. Another option is to take out a permanent life insurance policy, which, unlike term life coverage, has a tax-deferred savings component.

How Permanent Life Insurance Works

Here's how permanent life insurance works as a college savings vehicle: For every dollar you pay in premiums, a portion goes toward the death benefit and another portion is diverted to a separate cash-value account.

From an investment perspective, whole life insurance is generally the safest kind of permanent life insurance. The issuer credits your account with a guaranteed amount, although it may pay more if the investments perform well. Most policyholders can expect a return of anywhere from 3% to 6% after the first several years. Meanwhile, the money in the cash-value account grows tax-deferred, much like a 529 plan.

Other types of permanent life coverage, such as variable life insurance, give policyholders a degree of control over their investment. In this case, you select the sub-accounts—essentially mutual funds—that you want to be attached to your policy, and your account's annual return is pegged to the performance of these underlying investments. The potential reward is greater, but there's a risk that your balance could fall in a given year if the market takes a plunge.

When it's time for your child to start college, you can take out a loan against your cash balance. The insurer will reduce your death benefit if you don't pay back the loan, but that's not necessarily a drawback if you intended the policy primarily as a college savings plan all along.

Pros of Using Life Insurance for College

When contrasted with a 529 plan, life insurance has a couple of benefits. One is flexibility. Suppose your child decides against going to college. Any earnings in your 529 account, but not your contributions, will be subject to ordinary income tax rates and usually a 10% tax penalty if you decide to withdraw them. There are some plans that allow the beneficiary, who is typically in a lower tax bracket, to withdraw the funds, but it's still a significant tax hit that life insurance owners don't have to face. You also have the option of naming another relative as the 529 plan's beneficiary.

The other advantage of life insurance is that it's not included in financial aid calculations. By contrast, the money in a 529 plan is considered a parental asset, and up to 5.64% of parental assets are counted in the applicant's Expected Family Contribution (EFC) for each year of college. [2]

> **Important:** A 529 plan that you open directly with the plan's sponsor can be considerably less expensive than one you buy through a broker or other financial advisor.

Cons of Using Life Insurance for College

Permanent life insurance also has some less attractive features, such as upfront and recurring fees that can make stock and bond fund fees look like a steal. For example, 50% or more of your first-year premiums will typically go to pay the insurance representative's commission. As a result, you're starting in a pretty big hole.

It can take 10 years or more for your cash value to surpass what you have paid in premiums. So unless you buy a policy before your kids are in kindergarten, it's hard to make a case for life insurance as a way to build up your assets in time to pay tuition bills.

On top of that, heavy annual expenses will continue to weigh down your earnings. Most permanent life insurance policies charge upwards of 2% per year in administrative and investment costs.

In comparison, the average fund in a 529 account that is sold directly, rather than through a financial advisor, had fees of 0.35% in 2020, according to a May 2021 report by the research firm Morningstar. Advisor-sold funds were considerably more expensive than directly sold ones, averaging over 0.89%. [3]

What Are the Pros and Cons of the 529 plan?

The tax breaks are the 529's main benefit. You can invest in a range of mutual funds, and your earnings will grow tax-deferred. Withdrawals from a 529 plan for qualified education-related expenses are tax-free. The downside is that the savings count as an asset when you apply for financial aid, possibly reducing your eligibility for certain kinds of student aid. A life insurance policy doesn't count as an asset.

What Are the Benefits and Drawbacks of Using Permanent Life Insurance for College?

A big bonus is that you can take out a loan against your cash balance for college, though keep in mind the insurer will reduce your death benefit if you fail to repay the loan. Fees are another big drawback. It can take approximately 10 years for the cash value of your loan to surpass what you have paid in premiums.

What Are Other College Savings Plans?

A Coverdell Education Savings Account (ESA) can be set up at a bank or brokerage firm to help pay the qualified education expenses of your child or grandchild. Custodial savings accounts like Uniform Gifts to Minors Act (UGMA) accounts and Uniform Transfers to Minors Act (UTMA) accounts allow you to put money and/or assets in trust for a minor child or grandchild.

The Bottom Line

Even though you may have to forfeit a small chunk of your account because of financial aid rules, you're likely to come out ahead by using a 529 plan because of its lower expenses.

Should you still decide to purchase a permanent life insurance policy instead of a 529 plan, then it's all the more important to carefully research any firms you're considering to ensure you receive the best life insurance policy possible.

ARTICLE SOURCES ▲

Investopedia requires writers to use primary sources to support their work. These include white papers, government data, original reporting, and interviews with industry experts. We also reference original research from other reputable publishers where appropriate. You can learn more about the standards we follow in producing accurate, unbiased content in our editorial policy.

1. U.S. Securities and Exchange Commission. "An Introduction to 529 Plans, https://www.sec.gov/reportspubs/investor-publications/investorpubsintro529htm.html."

2. FinAid. "Account Ownership: In Whose Name to Save?, https://finaid.org/savings/accountownership/"

3. Morningstar. "2021 529 Savings Plan Landscape, https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/2021_529_Landscape.pdf?utm_source=eloqua&utm_medium=email&utm_campaign=&utm_content=22781," Page 1.

Investing & retirement resources

Three reasons to consider life insurance for college students

College students are usually focused on getting to class, maintaining good grades and graduating on time. Student life insurance policies are an issue that they're unlikely to contemplate.

But there are some circumstances when a college student should weigh buying life insurance (/personal/insurance/life/). It can provide an extra layer of financial protection for a surviving family. Consider the situations below.

[+] Feedback

1. Student loans

Many college students pay at least part of their education with student loans (/lc/resources/personal-finance/articles/paying-off-student-loans). For federal student loans, the amount owed is canceled in the event the student dies before paying off the debt. That doesn't happen with private student loans, which are more like traditional loans and still must be paid off. These types of loans also typically require a co-signer, who becomes liable for paying off the loan if the student dies.

In some cases, the loan's repayment schedule is accelerated after a death or can even require immediate repayment in full. This may put the co-signer in a serious financial bind as they struggle to pay off the loan or damage their finances and credit rating in the process. A student life insurance policy will pay off the remainder of the loan in the event of a student's death and protect the co-signer financially.

2. Covering dependents

It may not be the norm, but it's certainly not uncommon for an undergraduate to get married or have children while in school. There are also many cases of older, married students who have delayed the start of their education or are returning to college after time off.

Here, too, life insurance offers financial protection to a spouse and dependents by paying off student loans and other debts as well as funeral expenses if the student dies. Depending on the policy, it can also provide financial support for the student's children.

3. Protecting parents

Student loans aren't the only way to pay for a college education. Parents of students can finance their child's education through various methods, including home equity credit and 401(k) loans (/lc/resources/investing-and-retirement/articles/smart-ideas-for-401ks). If the student dies prematurely, these debts still need to be paid off, which can take a heavy financial toll on a family. A term life insurance policy (/personal/insurance/life/term/) on the total amount of their expected college debt will help cover these expenses.

College is expensive. To cover family members in the event of a student's untimely death, a life insurance policy (/personal/insurance/life/) provides financial protection from unpaid loans and other debts. Explore our affordable life insurance for students today.

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution • Not insured by any federal government agency • May lose value

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EQUITABLE

Prepare for the future, live for today

Everyone's truth is different. What's yours?

Life often involves looking ahead to what's next. It's about hopes and aspirations — for ourselves, and for those we love, too. And it's powered by our vision of a fulfilling future — ours and the next generation's.

But thinking about investing in the well-being and security of your loved ones, your business or your legacy doesn't have to come at the expense of living for the moment. A life full of confidence and optimism is something you deserve to experience every day, not just in the distant future. That's where we come in. Equitable life insurance can help you focus on what matters most to you and your family — today and tomorrow.

Parenthood

Securing your child's financial future and funding their education

Security

Paying off your mortgage, so your family is taken care of

Retirement

Planning for your next chapter and potentially supplementing your retirement with tax-free income

Life flexibility/stability

Accessing your money through potentially tax-free cash surrender value when life requires it

Legacy

Leaving a legacy to your loved ones

Succession

Getting peace of mind that your business will be left in the right hands

Quality of life

Caring for your long-term or personal needs

Business growth

Attracting top talent and retaining employees

Control

Keep your tax bracket down by integrating tax-free income into your retirement mix

Live More. Keep More. Build More.

The benefits of permanent life insurance

Permanent life insurance is more than just financially protecting those you love or your business in the future. It's also about helping you achieve your goals and setting up yourself, your loved ones or your business for success today.

Live More.

Unlike term insurance, permanent life insurance protects your family or your business for your entire life. That means you can rest easy knowing the people who rely on you will be financially secure when you're no longer there, thanks to the payout they receive through a death benefit.[1]

Permanent life insurance can also be used as a source of money for you and those who rely on you throughout your lifetime — for whatever, whenever. You can access your cash surrender value potentially tax-free, so you get more out of today, making permanent life insurance a smart addition to your financial plan.[2]

What you get	What this means for you
Financial security for your family or your business through a death benefit that is generally tax-free.[2]	The comfort of knowing you've helped your family and your business prepare for the future, even if you are gone.
Benefits you can customize to you and your family's or business's needs.	Additional protection for you or your assets. *For example, our Long-Term Care Services℠ Rider helps you cover long-term care expenses if you're chronically ill and are receiving qualified long-term care services in accordance with a plan of care.[3]*
Flexibility to access your money through loans and withdrawals throughout your life, potentially tax-free.[2,4]	You can access your cash surrender value for anything from funding a portion of your retirement to paying business expenses — without generally having to worry about the burden of taxes.[2,5]

1 Provided the policy remains inforce.

2 Under current federal tax rules, you generally may take income tax-free partial withdrawals under a life insurance policy that is not a modified endowment contract (MEC), up to your basis in the contract. Additional amounts are includible income. The IRS places a limit on how much money can go into life insurance premiums for the policy and how quickly such premiums can be paid in order for the policy to provide all of its tax benefits. If certain limits are exceeded, a MEC results. MEC policyholders may be subject to taxes on distributions on an income-first basis, that is, to the extent there is gain in their policies, and penalties on any taxable amount if they are not age 59½ or older.

Loans taken will be free of current income tax as long as the policy remains in effect until the insured's death, does not lapse and is not a MEC. Please note that outstanding loans accrue interest. Income tax-free treatment also assumes the loan will eventually be satisfied from income tax-free death benefit proceeds. Loans and withdrawals reduce the policy's cash value and death benefit, may cause certain policy benefits or riders to become unavailable, and may increase the chance the policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values.

In addition, withdrawals, policy loans and any accrued loan interest may cause your policy to lapse even if you are in a period of coverage under the No-lapse Guarantee Rider. Speak to your financial professional before taking any withdrawals or policy loans.

3 The Long-Term Care Services℠ Rider is available for an additional charge, and does have restrictions and limitations. A client may qualify for the insurance, but not the rider. It is paid as an acceleration of the death benefit.

4 Loans and withdrawals reduce the policy's cash value and death benefit, may cause certain policy benefits or riders to become unavailable, and may increase the chance the policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values.

5 Loans taken will be free of current income tax as long as the policy remains in effect until the insured's death, does not lapse and is not a MEC. Please note that outstanding loans accrue interest. Income tax-free treatment also assumes the loan will eventually be satisfied from income tax-free death benefit proceeds.

Keep More.

Permanent life insurance allows you to keep more of your money because it provides the potential for tax-deferred growth and gives you the ability to pass along any money through the death benefit — generally with no income taxes.

That means permanent life insurance can help you feel more in control of your and your family's financial future.

What you get	What this means for you
A lower overall tax burden.	Since you don't pay taxes along the way, your premiums **plus** your earnings can continue growing.
Income tax-free financial security death benefit.	Permanent life insurance generally has an income tax-free death benefit, allowing you to pass on a larger legacy to your family.
Tax-free distributions.	Permanent life insurance can be a valuable part of your overall retirement income strategy. When you're building wealth, the accounts you use can either be taxable, tax-deferred or tax-free. Permanent life insurance can be that third category — tax-free.
More control over your tax bracket.	During retirement, you can help keep your tax bracket down by integrating potential tax-free income from permanent life insurance into the mix.

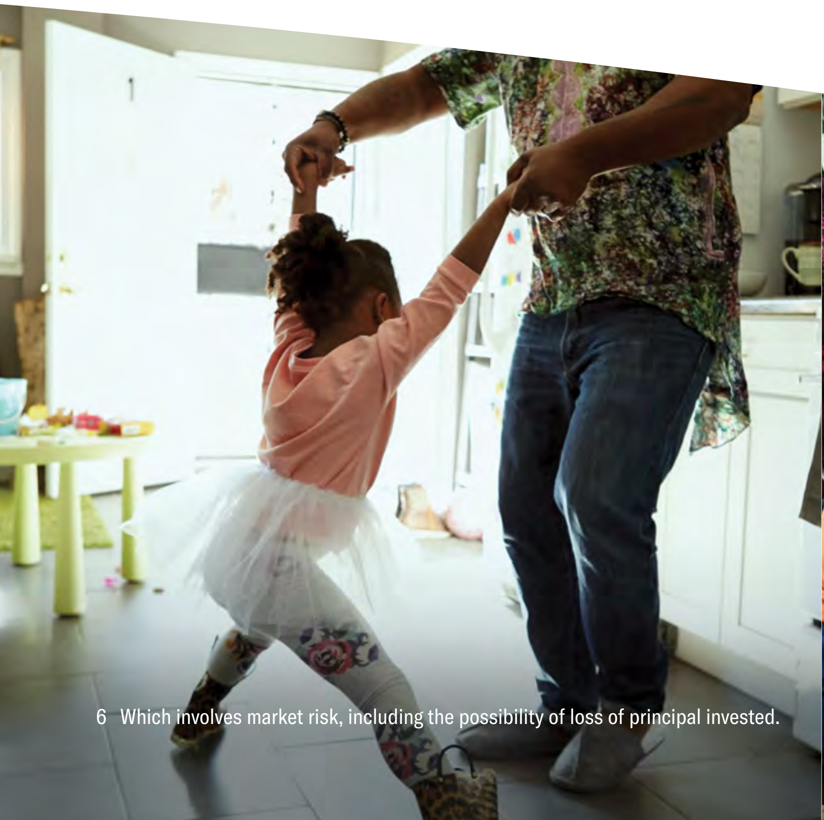
Build More.

Unlike term insurance, permanent life insurance provides cash value, which can increase every year in a tax-deferred way — in turn helping you grow your assets. Your permanent life insurance policy provides death benefit protection and the possibility of steady growth so you can build toward your tomorrow.

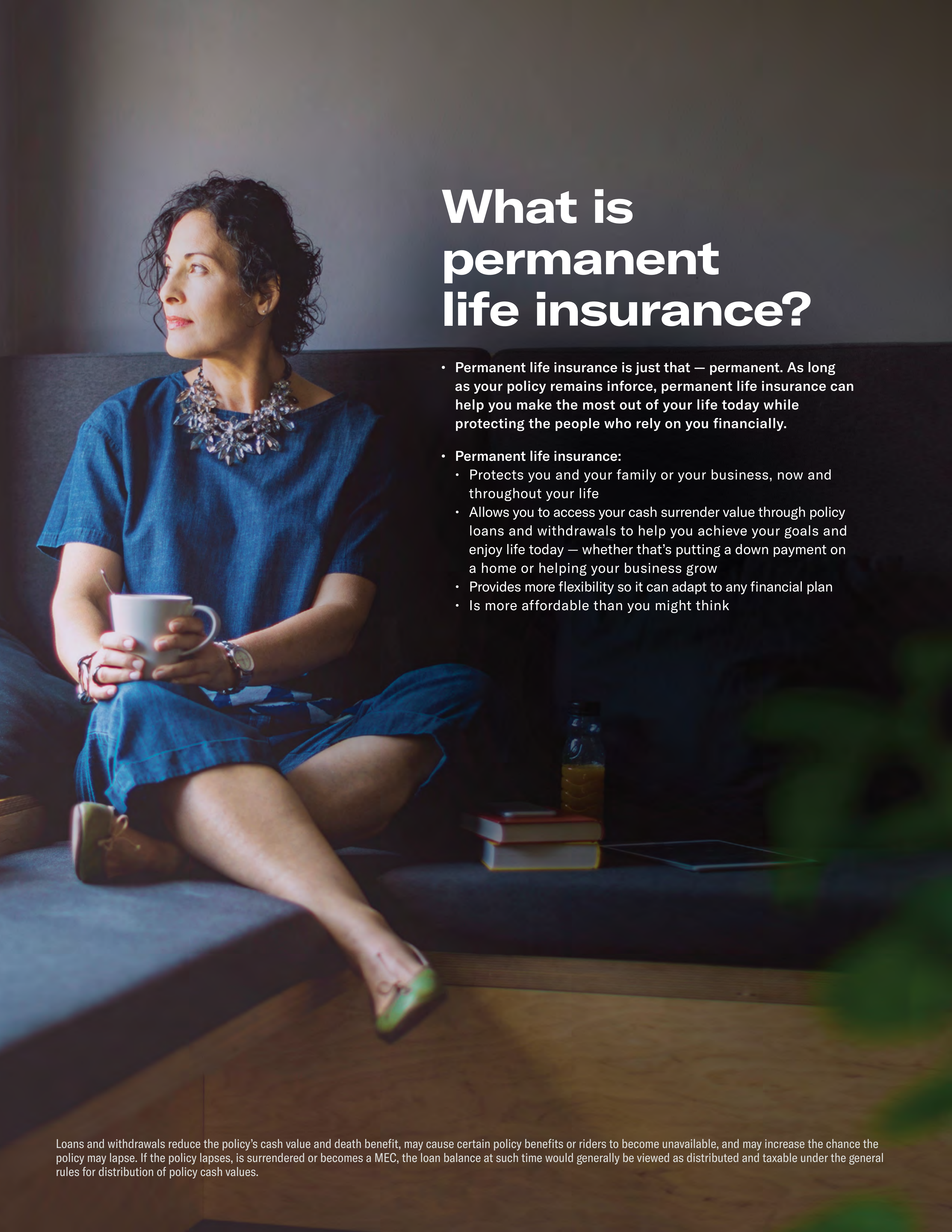
What you get	What this means for you
Builds cash value over time.	Your cash value grows tax-deferred, so you keep more of it, and you have the flexibility to take out a portion of that cash value if your circumstances change.
Wide range of investment choices (within variable life insurance policies).	More flexibility to invest how you want, depending on your preferences for market stability and growth potential.[6]
Many of the same benefits as a Roth IRA with some additional flexibility.	Permanent life insurance has no income contribution limits, allows you to withdraw money before age 59½ with no 10% IRS penalty and has no required minimum distributions (RMDs).

While there are similarities between a Roth IRA and cash value life insurance, there are also differences. A Roth IRA is an IRS plan designed to facilitate retirement savings. Cash value life insurance is a contract that builds value and provides a death benefit backed by the claims-paying abilities of the issuing life insurance company. Carefully review all the features, benefits and costs of a cash value life insurance policy with your financial professional before making a purchase.

- If your life insurance policy lapses, you will lose the death benefit and may lose substantial money in the early years.
- To be effective, you need to hold the policy until death. A life insurance policy generally takes years to build up a substantial cash value.
- Tax-free distributions will reduce the cash value and death benefit of the policy. You may need to pay higher premiums in the later years to keep the policy from lapsing.
- You must qualify medically and financially for life insurance, unlike a Roth IRA.



6 Which involves market risk, including the possibility of loss of principal invested.



What is permanent life insurance?

- **Permanent life insurance is just that — permanent. As long as your policy remains inforce, permanent life insurance can help you make the most out of your life today while protecting the people who rely on you financially.**
- **Permanent life insurance:**
  - Protects you and your family or your business, now and throughout your life
  - Allows you to access your cash surrender value through policy loans and withdrawals to help you achieve your goals and enjoy life today — whether that's putting a down payment on a home or helping your business grow
  - Provides more flexibility so it can adapt to any financial plan
  - Is more affordable than you might think

Loans and withdrawals reduce the policy's cash value and death benefit, may cause certain policy benefits or riders to become unavailable, and may increase the chance the policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values.

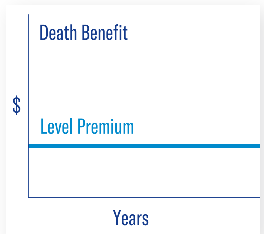
The different types of life insurance

There are five major types of life insurance policies. While each provides unique opportunities for protection and growth, all are focused on allowing you to pursue life's possibilities and improve your life for today and the future.

Level term insurance

Why it may be right for you

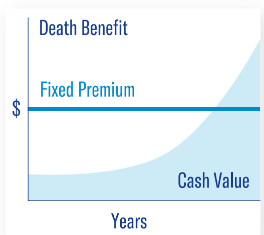
- Has a lower premium, but does not build cash value over time
- Has a fixed death benefit



Traditional whole life insurance

Why it may be right for you

- Your premium (the amount you pay) never changes during your policy's entire duration
- Provides a guaranteed minimum cash value
- You can potentially build your cash value even more through non-guaranteed dividends
- Has a fixed or increasing death benefit

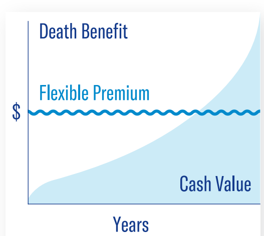


Universal life insurance

Why it may be right for you

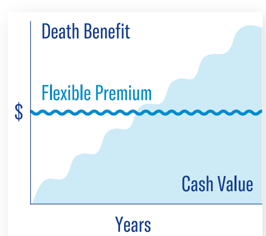
- Gives you flexibility to change the amount and timing of your premiums
- Provides the ability to build cash value, which varies by type of policy
- May provide optional guaranteed coverage for a certain number of years
- Has a fixed or flexible death benefit

Fixed universal life insurance



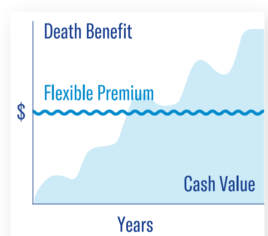
Provides the opportunity to grow your cash value through a fixed interest rate

Indexed universal life insurance



Provides the opportunity to grow your cash value through index-linked interest options

Variable universal life insurance



Provides the opportunity to grow your cash value through variable subaccounts *(There is investment risk, including the possible loss of principal invested.)*

Variable universal life insurance is sold by prospectus only. The prospectuses contain more complete information about the product, including investment objectives, risks, charges, expenses, limitations and restrictions. Please read the product prospectus and consider the information carefully before purchasing a policy or sending money. You should contact your financial professional for a copy of the current prospectus.

A variable universal life insurance contract is a contract with the primary purpose of providing a death benefit. It is also a long-term financial investment that can also allow potential accumulation of assets through customized, professionally managed investment portfolios. These portfolios are closely managed in order to satisfy stated investment objectives. There are fees and charges associated with variable life insurance contracts, including mortality and risk charges, insurance charges, premium charges, administrative fees, investment management fees, surrender charges and charges for optional riders.

Recapping the essential

By adding permanent life insurance to your portfolio, you get more ways to protect your family, provide tax-deferred growth and potentially build your money over time — helping you protect and focus on what's most important to you.

More flexibility, fewer restrictions. Why?

- Financial security through a death benefit
- The ability to build cash value over time with no income contribution limits
- Low overall tax burden through tax deferral and a generally income tax-free death benefit
- Flexibility to access your money tax-free throughout your lifetime through loans and withdrawals
- The ability to withdraw money before age 59½ with no 10% IRS tax penalty — and no required minimum distributions (RMDs)
- Ability to customize your benefits for additional security and some peace of mind (such as through a Long-Term Care Services℠ Rider)

Loans and withdrawals reduce the policy's cash value and death benefit, may cause certain policy benefits or riders to become unavailable, and may increase the chance the policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values. MEC policyholders may be subject to taxes on distributions on an income-first basis, that is, to the extent there is gain in their policies and penalties, and a 10% penalty on any growth if they are not age 59½ or older.

Who we are

Equitable Financial Life Insurance Company is a U.S. financial services company that helps build fulfilling futures.

For more than 160 years, we've been working with clients across generations, building on what's proven and pursuing what's possible.[7]

160
years and counting

$30
billion

In the last 25 years, we've provided clients and their families over $30 billion in death benefit payouts, helping them face the future with greater confidence and security.

We commit to your future as if it were our own. With tailored recommendations designed for you and with products built to meet your needs at every stage of life, we help you secure your financial well-being so you can live the life that's most meaningful to you.

Equitable Financial's affiliate, Equitable Financial Life Insurance Company of America (Equitable America), also issues life insurance policies.

7 The 161-year history applies solely and exclusively to Equitable Financial Life Insurance Company.

Let's get started together.

Visit **equitable.com** to learn more about how Equitable can help you plan for a future that reflects all of who you are. We're here to support you every step of the way.

Together, we'll work to turn today's goals into tomorrow's accomplishments.

A life insurance policy is backed solely by the claims-paying ability of the issuing life insurance company. It is not backed by the broker/dealer or insurance agency through which the life insurance policy is purchased or by any affiliates of those entities, and none makes any representations or guarantees regarding the claims-paying ability of the issuing life insurance company.

Equitable Financial Life Insurance Company of America is also an issuer of life insurance policies.

Equitable Financial Life Insurance Company, Equitable Financial Life Insurance Company of America, Equitable Advisors, Equitable Network and Equitable Distributors are affiliated companies, and do not provide tax or legal advice. You should rely on your own advisors on these matters.

Life insurance products are issued by either Equitable Financial Life Insurance Company (NY, NY) (Equitable Financial) or Equitable Financial Life Insurance Company of America, an Arizona stock corporation with its main administrative office in Jersey City, NJ. When sold by New York state-based (i.e., domiciled) Equitable Advisor Financial Professionals, life insurance is issued by Equitable Financial Life Insurance Company (NY, NY). Variable life insurance is co-distributed by affiliates Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI & TN) and Equitable Distributors, LLC, Indexed universal and term life insurance products are co-distributed by Equitable Network, LLC (Equitable Network Insurance Agency of California in CA; Equitable Network Insurance Agency of Utah in UT; Equitable Network of Puerto Rico, Inc. in PR) and Equitable Distributors, LLC, all located at 1290 Avenue of the Americas, NY, NY 10104.

References to Equitable in this brochure represent both Equitable Financial Life Insurance Company and Equitable Financial Life Insurance Company of America, which are affiliated companies. Overall, Equitable is the brand name of the retirement and protection subsidiaries of Equitable Holdings, Inc., including Equitable Financial Life Insurance Company (Equitable Financial) (NY, NY); Equitable Financial Life Insurance Company of America (Equitable America), an AZ stock company with main administrative headquarters in Jersey City, NJ; and Equitable Distributors, LLC. Equitable Advisors is the brand name of Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI & TN). The obligations of Equitable Financial and Equitable America are backed solely by their claims-paying abilities.

EQUITABLE

PINNEY INSURANCE

Providing All the Tools for Your Success SM

Pinney Insurance

Founded in 1972 as a Transamerica branch office and later incorporated as Pinney Insurance Center, Inc., we provide a small local agency feel with the power of a major national firm.

Pinney has expanded into a national distributor with thousands of contracted agents and offices in California, Illinois, Maryland, North Carolina, Oklahoma, Pennsylvania, Texas, Washington, and Mississippi. Pinney represents over 100 life, annuity, disability, and long-term care companies with the intent of providing our clients & partners with the best possible product solutions at the lowest possible costs.

Contact Us

Email Brokerage Sales Support or
contact one of our Brokerage Directors today at 800-823-4852.

Quick Links

Pinney Insurance
Access to carrier forms,
quote tools, and 24/7 case status

Case Status

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- Meet Our Agency Underwriter

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- Innovative Features
- Plans & Pricing

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