

# THINGS TO CONSIDER WHILE PLANNING FOR COLLEGE

## Current Environment

Whether you have a child about to enroll in college or you have a newborn child it's almost certain that you have thought about how much a college degree costs now and how much it will cost in the future.

In 2022, the average cost per year for in-state tuition of a 4-year public university is \$27,000. The average cost for out-of-state tuition is \$44,000. If you're looking for a 4-year private school, the average tuition is even higher. The sticker shock is exacerbated with the knowledge that those average costs are only for tuition and that other costs, like room and board, books, laptops, personal living expenses, and other miscellaneous costs will occur throughout the year.

## How much will I need to save?

Tuition rates increase each year and it doesn't appear that will change any time soon. In fact, tuition rates over last several years have increased 4-6% each year.

There are other options available that may help ease the financial stress. One option that is becoming more common is to attend community college for a year or two before transferring to a public university. The average tuition to an in-district community college is \$3,400.

The annual savings required will be determined by the cost of the school and the time you have to fund it.

## When should I start saving?

With tuition costs climbing each year, it's not always possible to have accumulated the available cash to write a check for such a large amount each year. That's why it's important to save and to start saving early. It's never too late to start saving. If you want to know when you should start saving, starting at the birth of the child is the most ideal time to start.

## What are the available investment products to help me save?

Setting aside money in a savings or separate bank account is a good start but may not be the most ideal. With the current level of interest rates, there are other options out there to help your dollars grow. One of the most commonly used college savings plans is the 529 investment savings plan. These plans allow you to invest funds into an account. As the funds accumulate, taxes are deferred on the earnings. If funds are withdrawn for qualified education expenses, the earnings are not subject to income tax. Other options include the 529 pre-paid plan, Roth IRAs, UTMAs, and brokerage accounts. It's important to understand the investment risk and tax implications associated with each of these investment options before opening up an account and funding it.



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## Are there other options to help me cover costs?

While saving and putting away money at an early age for the child is the ideal way to cover the expenses of education, not everyone has that option or luxury. Many universities offer scholarship opportunities, grants, and other financial aid. They may not cover the full cost of education, but financial assistance can reduce the financial burden. It's important to do your research with the university you are interested in attending and finding out about their financial aid and scholarships opportunities.

Utilizing student loans is another way to cover the cost of education. It's important to understand the benefits and also the risk involved before taking out any loans. Student loans can be beneficial due to the fact you can get immediate funding but note that anything that you borrow will have to be paid back with interest. For many people, it can often take several years to pay back student loans which can have a significant impact on your financial freedom.

## Are there education tax credits and deductions?

Although student loans are required to be paid back with interest, the IRS does provide a tax break. The IRS allows you to deduct on your income tax return up to \$2,500 of student loan interest paid in the current tax year. There are also other potential tax saving opportunities that include the American Opportunity Credit which can be used for the first 4 years of higher education or the Lifetime Learning Credit which can also be used for graduate and professional degree programs.

The IRS isn't the only tax collector that provides tax relief when it comes to education. Depending on the state that you live in, contributing to the state 529 plan could provide to state tax deductions. It's important to understand the 529 state sponsored plan and what tax benefits you may be eligible to receive since not all states offer tax deductions.

## Can Grandparents help cover college costs?

Often times the question of "Can I help pay for my grandchild's or loved one's education?" The answer is absolutely. Helping with education provides many gifting opportunities. Popular gifting opportunities include contributing to an already opened 529 plan or opening up your own 529 plan for the benefit of a loved one. Contributions, up to \$16,000 per person are exempt from gift tax. In previous years, owning a 529 plan for a beneficiary who is not your child may have impacted how much student aid the child could have received. Due to recent changes, starting in the 2024-2025 school year, 100% of contributions to a 529 plan owned by you and for the benefit of a loved one who is not your child will not be factored into a child's student aid eligibility.

*This explanation of planning for college is for educational and informational purposes only and does not constitute a recommendation.*

*To learn more about costs and various means for funding a college education, you may wish to consult an appropriate professional.*

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