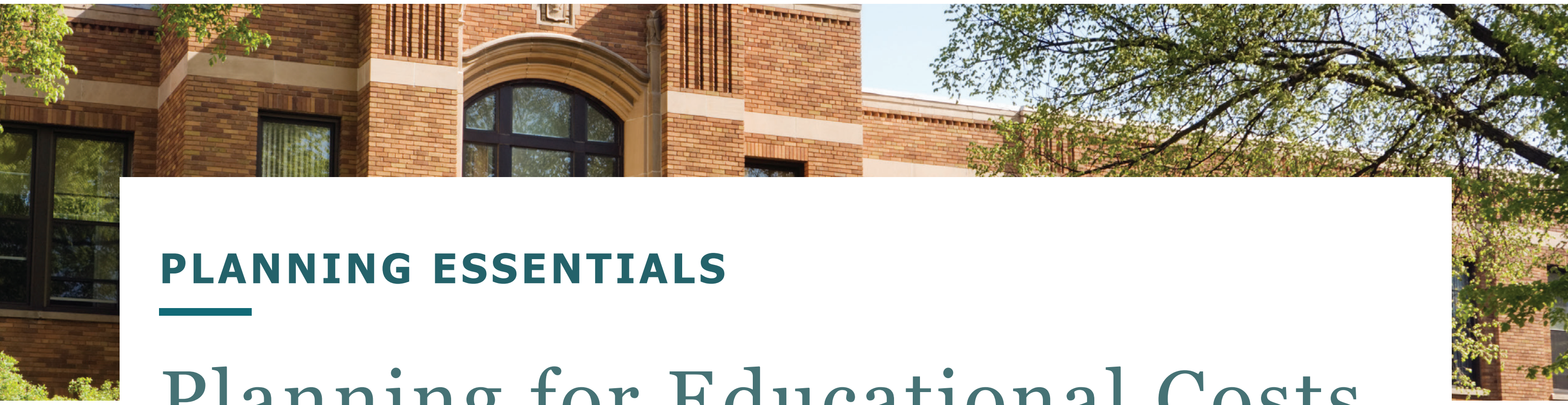

PLANNING ESSENTIALS

Planning for Educational Costs

In its most recent survey of college pricing, the College Board reports an average four-year private university degree (including tuition and fees, room and board, and allowances for books, supplies, transportation, and other personal expenses) costs $223,200. For an in-state public college degree, the average cost is $109,320.[1]

Even after factoring in financial aid, many students are forced to borrow considerably to fund their educations. Today, there are more than 45 million Americans carrying nearly $1.7 trillion in student loan debt—with an average debt burden of $37,693.[2]

Aside from buying a home, helping to fund a child's or grandchild's college degree might be the single largest 'big ticket' expense many families will make during their lives.

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Start saving early

For parents and grandparents, if you have the luxury of time, there's no better way to prepare for the ever-rising cost of college than by opening and funding a 529 Plan account. These accounts feature the following:

- They are easy to set up
- Most only require a small initial deposit
- Funds are able to grow tax-deferred
- Withdrawals used for qualified expenses (tuition, fees, room and board, books, required supplies and equipment) are tax-free
- There are no income or age limits on contributions

Each individual can make annual contributions of up to $16,000 ($32,000 for a married couple) to as many children or grandchildren as they wish, without incurring a federal gift tax.

Also, 2018's Tax Cuts and Jobs Act relaxed some of the restrictions as to how 529 Plan assets can be used. You can now withdraw up to $10,000/year tax-free to help cover qualified expenses at any accredited public, private, or religious institution. Prior to this change, only Coverdell Education Savings Accounts (ESAs) could be used for tax-deferred primary and secondary education savings—accounts which carry both income limitations to use, and a maximum $2,000 annual contribution limit. For families, this expansion of 529 Plan use provides a little more educational funding flexibility.

How much do you need to save?

The more you're able to set aside now, the less debt your kid(s) or grandkid(s) will be saddled with.

Begin by estimating your expected costs based on the above statistics. If your kids are still young, you'll need to factor in cost inflation. If they're in high school, sit down together and talk about their hopes and expectations. What area of study are they interested in? Are they considering a two- or four-year degree? Have they identified specific schools they're thinking about?

Once you have a better sense of how much, you then need to figure out what percentage of the expense you plan to cover for them. Then, it's a simple matter for you and your Eagle Strategies Financial Advisor to determine how much you'll need to save each month to meet that goal. Often, it's a matter of what you can afford. Don't make the common mistake of foregoing your retirement savings to fund their education! Retirement needs to be your top priority—only then should you address education.

If you need to save for more than one child, keep in mind that 529 Plan accounts can be transferred from one beneficiary to another eligible member of the family without any penalties. So, if one child is fortunate enough to get a full scholarship or ultimately decides not to pursue a college degree, you'll be able to redirect those savings to their sibling(s).

Looking for ways to save more? Consider:

- Cutting back on non-essential spending
- Depositing one-time windfalls (e.g., annual bonuses) directly into your child's 529 Plan account
- Taking on some extra part-time work for extra income
- Asking relatives to contribute to your child's 529 Plan account in lieu of gifts

Gift legacy assets to fund 529 plan accounts

Given the current high estate and lifetime gift tax exemption ($12.06 million for 2022) and uncertainty surrounding whether Congress will allow the exemption amount to sunset back to $5 million (adjusted for inflation) at the end of 2025, many wealthy investors are taking advantage of the current environment to gift potential legacy assets for optimal tax benefits.

Under special IRS rules regarding 529 Plans, both you and your spouse are allowed to make a single lump-sum, 5-year tax-free gift of up to $80,000 ($160,000 for a couple) to each of your children and/or grandchildren.[3] It's a terrific way to save for future college costs—especially if a child is approaching college age and you're behind on your savings goal.

If you're a grandparent, however, rather than setting up your own account to save for a grandchild, you may be better off contributing to an account that the child or their parents set up. This will help avoid your gift being classified as 'student income' in financial aid eligibility calculations.

BEFORE THEY HEAD OFF:

Keep in mind that once your child turns age 18, they're legally an adult. Because of the Health Insurance Portability and Accountability Act (HIPPA), this means physicians and/or hospital staff might not be willing to share their medical information with you if they need care while away at school. Ask your child to take a few minutes to complete and sign the following:

- A HIPPA Information Release
- A Healthcare Proxy
- A Durable Power of Attorney

Hopefully the need for them will never arise. But in case of an emergency, forewarned is forearmed.

[1] "Trends in College Pricing and Student Aid 2021," College Board, October 2021.
[2] "2021 Student Loan Debt Statistics," Forbes, February 2021.
[3] 2022 IRS Instructions for Form 709.

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