

Financially Speaking

With Trisha Arndt

Covering the Family Portion of College Costs

One of my dear friends recently told me that her son did a prospective student visit at my alma mater, UW-Whitewater. My first thought was, "Cool, I hope he goes there". That was quickly followed by "Wait, what? How is it even possible that he is that old??"

Time certainly goes by quickly and for parents it can sometimes feel like years pass in an instant. Adding to the angst of watching their babies grow into independent individuals for many parents is concern over the looming cost of college.

In my last column I talked about some of the help that is available for covering college costs. Things like scholarships, grants and federal tax incentives can help tremendously and generally don't have to be repaid. If you missed that column and would like to see it you can find it archived on my website, www.wealthstrategies.biz.

While those types of programs can make a big dent in the total college bill, the reality is that for most students there is still going to be a sizeable balance that they and/or their family needs to pay.

In some cases families are able to cover the shortfall from their current income, especially if they structure their debt obligations to factor in the anticipated costs. For example, some families will plan to pay off auto loans, or even home mortgages, prior to the child starting college, allowing them to redirect the money that had gone to those payments each month to the college costs.

Often though, the costs of college are too high to cover from current income. In those cases the family either needs to utilize savings that they have accumulated over time or take out loans.

Most articles about education planning focus on utilizing tax-advantaged savings vehicles to accumulate money for college. The most common vehicle discussed is called a 529 plan. 529 plans allow money to be accumulated and invested, generally allowing you to select from a group of options similar to what you might see in a 401k plan. Any earnings from the investments would not be taxed as the account grows and would be distributed tax free if used for qualified education expenses.

While 529's are broadly governed by Federal rules, the plans are operated by each individual state. It is important to note that you do not have to use your home state's plan, nor does the child have to attend a school located in the state of plan. In some cases however the state may offer additional features that you should be aware of. For example, Wisconsin's plan, EdVest, offers a state income tax deduction for qualifying contributions up to \$3100 per year made by Wisconsin residents.

To learn more about 529 plans in general, and the Wisconsin EdVest plan in particular, you can visit www.edvest.com.

Ultimately, if the family isn't able to afford college costs using savings and current income, money will have to be borrowed and paid back over time, typically with interest. While it is possible to utilize a form of personal loan or a home equity loan to pay for college costs, most people borrow money via a federal student loan program.

There are a number of different federal student loan programs available with different features and rules. Broadly, the key differentiators are whether the interest on the loan is subsidized or not and who is technically borrowing the money (and responsible for paying it back).

Direct subsidized loans are loans made to eligible students that qualify based upon financial need (determined by the school's financial aid department following completion of the financial aid application). The key benefit of these loans is that the federal government covers the interest charges while the student is in school and for a grace period afterwards. Conversely, unsubsidized loans do not require a financial need to obtain but begin charging interest immediately.

Parents can also borrow money directly to pay for their child's college costs via the direct PLUS loan program.

When it comes time to start repaying student loans there are a number of repayment schedules to choose from. Some utilize a fixed repayment schedule designed to have the loan paid off within a number of years, others start with a low payment amount that gradually increases over time and others determine the payment utilizing a formula that factors in the borrower's income. The important thing to note is that there are options and that you can generally change the repayment schedule over time to best fit your situation.

In recent years several new loan forgiveness programs have been developed that can be very beneficial if the criteria are met to qualify. Some examples include a program that can forgive up to a certain amount of student debt for teachers that work in low-income areas for five years and a public service program that can forgive all remaining student debt if the borrower works in a qualified public service job for ten years and stays current on their payments.

To learn more about student loans, repayment options and loan forgiveness programs I would encourage you to visit studentaid.ed.gov. It offers a treasure trove of information.

Trisha Arndt, CFP® is President of Wealth Strategies of Wisconsin Ltd, 901 Kimball Lane, Suite 1400, Verona, WI 53593, 608-848-2400. Securities and Advisory Services offered through Commonwealth Financial Network, member FINRA/SIPC, a Registered Investment Adviser.

The fees, expenses, and features of 529 plans can vary from state to state. 529 plans involve investment risk, including the possible loss of funds. There is no guarantee that a college-funding goal will be met. In order to be federally tax-free, earnings must be used to pay for qualified higher education expenses. The earnings portion of a nonqualified withdrawal will be subject to ordinary income tax

at the recipient's marginal rate and subject to a 10-percent penalty. By investing in a plan outside your state of residence, you may lose any state tax benefits. 529 plans are subject to enrollment, maintenance, and administration/management fees and expenses