Education Funding

HILLS BANK
WEALTH MANAGEMENT

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Important Notice

This report is intended to serve as a basis for further discussion with your other professional advisors. Although great effort has been taken to provide accurate numbers and explanations, the information in this report should not be relied upon for preparing tax returns or making investment decisions.

Assumed rates of return are not in any way to be taken as guaranteed projections of actual returns from any recommended investment opportunity. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney.

The Benefits of a College Education

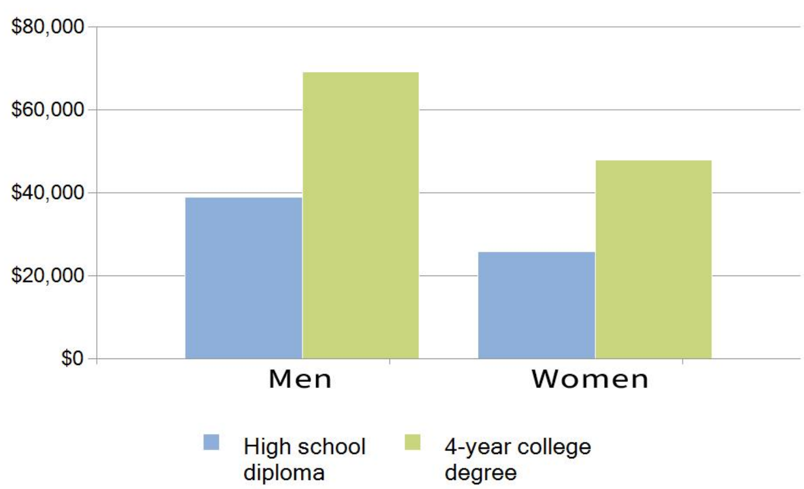
For many, accumulating funds for their children's education is a savings goal that is often thought about, but seldom acted upon. There are numerous reasons why saving for college is an essential need.

- **Economics:** Statistically, the average worker with a 4-year college education earns far more than the average worker with only a high school diploma.
- **Increasing costs:** Over the last 30 years, college costs have steadily increased.[1]
- **Years of study:** Four years of study may not be sufficient. In many professions, six or even eight years of study are required.

What is a College Education Worth?

College educated, full-time workers statistically enjoy a higher median income than those with less education. In a recent report on education and earnings,[2] the Census Bureau found that those with four years of college could expect to have substantially higher annual earnings than high school graduates.

Median Annual Income



[1] See "Trends in College Pricing and Student Aid **2021**," published by the College Board, page 12, Figure CP-2, Published Tuition and Fees over Time.

[2] Median Earnings in the Past 12 Months (in 2019 Inflation-Adjusted Dollars) of Workers by Sex and Women's Earnings as a Percentage of Men's Earnings by Selected Characteristics. 2019 American Community Survey 1-Year Estimates.

The Benefits of a College Education

Over a lifetime of work, 39 years on average, a four-year college education can increase a man's total income by over $1,181,505. Because of time spent raising children, the average woman spends 28 years in the workforce. A college education could increase her lifetime earnings by over $617,848.[1]

What Does a College Education Cost?

In recent years, college costs have often exceeded the general rate of inflation. The table below projects college costs for a small group of well-known institutions:

Private Institutions	Annual Costs[2] (Assumes inflation is 4.0% per year.)			
	2022	2027	2032	2037
Yale University New Haven, Connecticut	$77,750	$94,595	$115,089	$140,023
Northwestern University Evanston, Illinois	79,032	96,155	116,987	142,332
Stanford University Stanford, California	76,118	92,609	112,673	137,084
Public Institutions	**2022**	**2027**	**2032**	**2037**
State University of New York Stony Brook, New York	$26,064	$31,711	$38,581	$46,940
University of Michigan Ann Arbor, Michigan	28,770	35,003	42,587	51,813
University of Colorado Boulder, Colorado	28,654	34,862	42,415	51,604

[1] Figures do not take inflation into account.

[2] Annual costs are for the 2021-2022 academic year and include tuition, fees, and on-campus room and board. Books, transportation, and personal expenses are additional. Costs for out-of-state students at public institutions are higher.

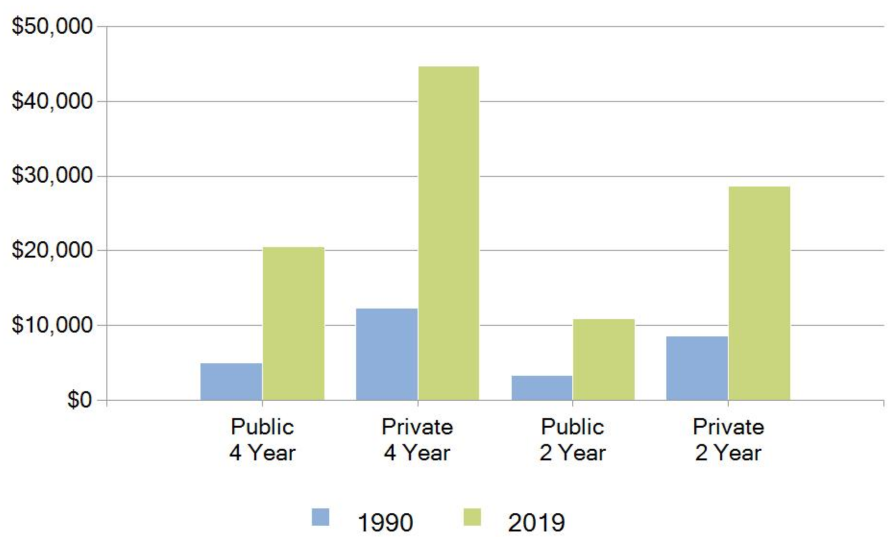
Growth in College Costs

1990-2019

Average Annual Costs[1]

School	Tuition & Fees		Room & Board		Total		Average Annual Increase
	1990	2019	1990	2019	1990	2019	
Public 4 Year	$1,780	$9,212	$3,195	$11,386	$4,975	$20,598	$539
Private 4 Year	$8,396	$31,875	$3,888	$12,787	$12,284	$44,662	$1,116
Public 2 Year	$756	$3,313	$2,543	$7,636	$3,299	$10,949	$264
Private 2 Year	$5,196	$15,727	$3,474	$12,900	$8,670	$28,627	$688

Growth in College Costs
1990-2019



[1] Figures shown are for in-state students. Source: National Center for Educational Statistics, Digest of Education Statistics, Table 330.10, Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting postsecondary institutions, by level and control of institution: Selected years, 1963-64 and 2018-19, in current dollars.

Ways to Save for College

In accumulating funds for college, one of the first questions a family will face is, "Where do we invest the money?" Many financial professionals will recommend that money for college be placed in relatively low-risk investments. If there is a long enough time frame, the savings may be placed initially in higher risk (and potentially higher return) investments. As the time for college gets closer, the funds can be shifted into more conservative choices.

The ultimate decision will depend on a range of factors such as the number of years until college begins, the amount of money available to invest, a family's income tax bracket, risk tolerance, and investment experience. A few of the more traditional approaches are:

- **Savings accounts:** Including CDs, money market accounts, and regular savings.
- **Tax-free municipal bonds:** Held either directly or through a mutual fund.
- **U.S. Treasury securities:** Such as treasury bills or treasury bonds.
- **Growth stocks/growth mutual funds:** For the long-term investor.

Tax-Advantaged Strategies

Under federal income tax law (state or local income tax law may differ), there are a number of tax-advantaged strategies available to accumulate funds for college expenses. The rules surrounding these strategies can be complicated and they should only be used after careful review with a tax or other financial professional:

- **IRC Sec. 529 qualified tuition program:** These plans allow an individual to either prepay a student's tuition, or contribute to a savings account to pay the student's qualified education expenses. Contributions are not tax deductible, but growth in an account is tax-deferred. If certain requirements are met, distributions to pay qualified educational expenses are excluded from income. 529 plans involve investment risk, including possible loss of funds, and there is no guarantee a college-funding goal will be met. The fees, expenses, and features of 529 plans vary from state to state.

- **Coverdell education savings account:** Up to $2,000 per year may be contributed to a Coverdell ESA for an individual. Contributions are not tax-deductible, but growth is tax-deferred. Distributions are excluded from income if used for qualifying educational expenses. Other restrictions may apply.
- **Cash value life insurance:** Cash value life insurance can be an attractive, tax-favored means of accumulating school funds. If an insured dies before the student starts school, the policy proceeds can be used to pay educational expenses.
- **U.S. savings bonds:** Interest on series EE savings bonds issued after 1989, or Series I savings bonds, may (certain limits apply) be excluded from income if qualifying education expenses are paid in the year the bonds are redeemed. The exclusion also applies to savings bond interest contributed to an IRC Sec. 529 qualified tuition program or a Coverdell ESA.

Who Owns the Funds?

A second issue facing families planning for college is the question of "Who will own the funds?" The answer to this question involves issues of control, income and gift taxes, and can impact a future application for financial aid:

- **Parents:** Either in accounts specifically earmarked for college or as a part of a general family portfolio.
- **Child:** Often a custodial account is used, under either the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA).
- **Trust:** In certain situations, usually involving wealthy families, specialized types of trusts may be used, such as a Crummey trust or charitable remainder trust.

Impact On Financial Aid

For need-based financial aid purposes, assets considered to be owned by the **parents** have a relatively small negative impact. Assets considered to be owned by the **child** have a much greater negative impact. Trust assets are often considered to be owned by the child, but this can vary widely. Frequently, trust provisions restrict access to principal, thus forcing inclusion of the trust assets in the eligibility process each year that a student is in school. Non-trust assets can be "spent down" in a year or two, limiting their financial aid impact.

Other Resources

There are a number of excellent references and guides to investments and college planning available in bookstores and public libraries. State and federal agencies involved in higher education also are excellent sources of information. In addition, there are a number of sites on the Internet which can provide information, including the following:

- **The College Board** – https://www.collegeboard.org
- **FinAid! The SmartStudent® Guide To Financial Aid** – https://www.finaid.org
- **College Savings Plan Network** – links to state-run web pages on prepaid tuition or college savings plans, at: https://www.collegesavings.org
- **Federal government:** https://studentaid.gov/

Begin Early and Seek Professional Guidance

Developing a plan to save for a child's college education can be complicated. Questions can arise involving income tax, estate and gift taxes, investment issues, and the impact of asset ownership on financial aid eligibility. Individuals are strongly advised to begin a savings program as early as possible, and seek professional guidance.

Section 529 Qualified Tuition Plans

To encourage saving for education, Congress created Section 529 of the Internal Revenue Code[1]. This law provides for two tax-advantaged programs that parents and others can use to accumulate some or all of the resources needed to pay for education.

- **Prepaid tuition plans:** Cash contributions are made to a qualified trust to "prepay," at today's prices, a beneficiary's future tuition costs. This approach allows you to purchase a number of course units or academic periods that are redeemed when the beneficiary is old enough to attend school.

- **Education savings plans:** Cash contributions are made to an account established for a named beneficiary. An investment management firm typically directs the investments. The amount of money available for school expenses depends on growth in the account between contribution and withdrawal.

Under federal tax law, contributions are not tax deductible and any growth in an account is tax-deferred. Distributions used solely to pay for qualified educational expenses are federally tax-exempt. The earnings portion of a "non-qualified" distribution is taxable to the beneficiary and may be subject to a 10% tax penalty.

Issues to Consider

- **Investment risk:** Prepaid tuition plans are generally seen as having a lower level of market risk, along with a lower rate of return. Education savings plans combine the potential for gain with the possibility of losing money.

- **Home state plans:** Does the plan in your (or the beneficiary's) home state offer any tax or other benefits that are only available to participants in such state's plan?

- **Expenses covered:** Generally, tuition, fees, books, supplies, and equipment required for attendance qualify. Computers, software, peripheral equipment, and internet access also qualify if they are to be used primarily by the beneficiary while the

[1] The discussion here concerns federal income tax law. State or local law may vary.

beneficiary is enrolled at an eligible educational institution. Reasonable costs of room and board are also included if the student is attending school at least half time. Additionally, qualified expenses include costs incurred to allow a special needs beneficiary to enroll at and attend an eligible institution. Even though the law allows for prepaid tuition plans to include room and board, many plans specifically exclude these expenses.

Beginning in 2018, the Tax Cuts and Jobs Act of 2017 (TCJA) expanded the definition of qualified higher education expenses to include expenses for tuition incurred in connection with the enrollment or attendance of the designated beneficiary at an elementary or secondary, public, private, or religious school.

The SECURE Act, effective for distributions after December 31, 2018, further expanded the definition of qualified higher education expenses to include expenses related to participation by a designated beneficiary in an apprenticeship program registered with the Secretary of Labor. This act also provided for distributions for the payment of interest or principal of a qualified education loan for the designated beneficiary or a sibling.[1]

- **Flexibility:** What happens if a beneficiary does not attend school? How easy is it to change the beneficiary, so that the assets may be used for someone else? What expenses or fees are involved if the account owner wants to terminate the plan? Is there a different rate of return if the beneficiary attends school in a different state or if the account owner terminates the plan?

Seek Professional Guidance

Individuals and families considering a qualified tuition plan are faced with a number of complex income, gift, estate, and investment questions. The guidance of appropriate tax, legal, need-based student aid, and financial professionals is highly recommended.

[1] IRC Sec. 529 covers both education *savings* plans as well as *prepaid tuition* plans. The same definition of "qualified higher education expenses" applies to both types of plans. In practice, however, for prepaid tuition plans, the sponsoring entity will limit the use of the funds to tuition and fees. Some plans include a room and board option or allow tuition credits to be used for other qualified expenses

Education Savings Plans Compared

Benefit or Feature	"529" Prepaid Tuition Plan[1]	"529" Education Savings Plan[1]	Coverdell Education Savings Account
Basic concept	Buy tomorrow's tuition at today's prices.	Tax-advantaged savings account to accumulate funds for education.	Tax-advantaged savings account to accumulate funds for education.
Federal income tax treatment	Contributions are not deductible; growth is tax-deferred; withdrawals for qualified education expenses are exempt from tax.	Contributions are not deductible; growth is tax-deferred; withdrawals for qualified education expenses are exempt from tax.	Contributions are not deductible; growth is tax-deferred; withdrawals for qualified education expenses are exempt from tax.
State or local income tax treatment	Varies. Some states follow federal income tax law, while others do not.	Varies. Some states follow federal income tax law, while others do not.	Varies. Some states follow federal income tax law, while others do not.
Level of investment risk	Generally a low level of risk. Sponsoring state or organization typically promises to invest funds to match tuition increases. Later contributions may be required.	Varies, depending on the underlying investments. An investment manager typically manages the funds. Both gains and losses are possible.	Varies, depending on the underlying investment. A wide range of self-directed investments is available. Both gains and losses are possible.
Where to purchase	Directly from the state or private institution involved.	Investment brokers, banks, credit unions, insurance companies, or directly from the state involved.	Investment brokers, banks, credit unions, and insurance companies.
Who can contribute?	Generally, anyone. Residency restrictions may apply.	Generally, anyone. Residents in one state can often invest in another state's plan.	Generally, anyone.

[1] "529" refers to Section 529 of the Internal Revenue Code, the section of federal law which authorizes these plans.

Education Savings Plans Compared

Benefit or Feature	"529" Prepaid Tuition Plan	"529" Education Savings Plan	Coverdell Education Savings Account
How much can be contributed?	Contributions must be in cash and may not exceed what is needed to fund the beneficiary's education expenses. The program sponsor will specify the maximum amount.	Contributions must be in cash and may not exceed what is needed to fund the beneficiary's education expenses. The program sponsor will specify the maximum amount.[1]	Contributions must be in cash and may not exceed $2,000 per beneficiary per year.
Beneficiary age limits for contributions?	None	None	Before age 18 unless a special needs student.
How are payments made?	In a lump-sum or periodic payments.	In a lump-sum or periodic payments.	Typically, in periodic payments.
Do income limitations apply to the donor?	No	No	Yes. Contribution is phased out for donors whose AGI exceeds certain limits.[2]
Who controls the funds?	Generally, the donor.[3] If the account is a custodial account, the beneficiary becomes the owner when he or she reaches age 21 (18 in some states).	Generally, the donor.[3] If the account is a custodial account, the beneficiary becomes the owner when he or she reaches age 21 (18 in some states).	Generally, the donor.[2] If the account is a custodial account, the beneficiary becomes the owner when he or she reaches age 21 (18 in some states).

[1] In some education savings programs, more than $250,000 may be contributed for a single beneficiary.
[2] For unmarried individuals, the contribution is phased out when adjusted gross income (AGI) is between $95,000 - $110,000. For married couples filing jointly, the phase-out range is an AGI of $190,000 - $220,000.
[3] With a "529" prepaid tuition plan or a "529" savings plan, if the assets are not used for education they may be returned to the donor. In a Coverdell Education Savings Account, if the assets are not used for education, they will ultimately become the property of the beneficiary.

Education Savings Plans Compared

Benefit or Feature	"529" Prepaid Tuition Plan	"529" Education Savings Plan	Coverdell Education Savings Account
What expenses are covered?[1]	Tuition and fees for primary, secondary, and post-secondary education are covered. Some plans include a room and board option or allow excess tuition credits to be used for other qualified expenses.	For primary and secondary schools, tuition and fees are covered. For post-secondary education, costs such as tuition, fees, books, supplies, computers, software, and internet access are covered. Reasonable costs for room and board qualify if the student is attending school at least half time. Expenses related to participation in a registered apprenticeship program, as well as repayment of interest or principal on a qualified education loan for the designated beneficiary or a sibling, also qualify.	A wide range of expenses is allowed, to attend Kindergarten thru 12th grade, as well as post-high school educational institutions. May include tuition, fees, books, supplies, and equipment, as well as reasonable costs for room and board.
What schools may the beneficiary attend?	Prepaid tuition plans typically limit attendance to same-state schools or colleges.	Funds accumulated in the savings plan of one state may usually be used at institutions of higher education throughout the U.S. Elementary or secondary public, private, or religious schools, apprenticeship programs registered with the Secretary of Labor, and some foreign schools also qualify.	For K-12, any school that qualifies under state law, including public, private, or religious schools. For post-high school, most institutions in the U.S. qualify.

[1] Technically, under IRC Sec. 529, the same definition of "qualified higher education expenses" applies to both prepaid tuition plans and education savings plans. In practice, however, for prepaid tuition plans, the sponsoring entity will limit the use of the funds to the types of expenses shown above.

Education Savings Plans Compared

Benefit or Feature	"529" Prepaid Tuition Plan	"529" Education Savings Plan	Coverdell Education Savings Account
Effect on financial aid?	Generally reduces financial aid. Account owned by student penalized more than parent-owned account.	Generally reduces financial aid. Account owned by student penalized more than parent-owned account.	Generally reduces financial aid. Account owned by student penalized more than parent-owned account.
May account be rolled-over to other family members?	Yes	Yes	Yes

Paying for College Today

For many Americans, providing a college education for their children has long been an important family goal. Paying for that education, however, has never been easy. Over the past few years it has become even more of a challenge as college costs continue to rise.[1]

Few families seem able to save enough to fully fund four or more years of higher education. For many students, some type of financial aid, in the form of grants, scholarships, loans, or work-study, is needed to make the dream a reality.

And such financial aid is available. The federal government, through the Department of Education, provides more than $120 billion a year[2] in student aid, through a variety of programs. Private organizations and foundations, state governments, as well as the schools and universities themselves, are additional sources of financial aid.

Applying for Financial Aid

The vast majority of financial aid is awarded through a standardized process which, in general, proceeds as follows:

- **Free Application for Federal Student Aid (FAFSA):** The student and his or her family complete the Free Application for Federal Student Aid, the single form used to apply for all types of federal aid; it is also used to apply for state financial aid at many public and private colleges. The FAFSA collects information such as family size and number of family members in college, in addition to financial data such as income and benefits, and net assets.
- **Student Aid Report (SAR):** Using the information supplied on the FAFSA, the government calculates the amount a family is expected to contribute toward a student's education, known as the Expected Family Contribution (EFC). This information is reported on the SAR and is sent to the student. The same information is sent to the financial aid offices of the colleges the student listed on the FAFSA.
- **CSS/Financial Aid PROFILE:** A few schools will require a prospective student to complete an additional standardized financial questionnaire known as PROFILE. The data collected on this form is used to award a college's institutional aid.

[1] See "Trends in College Pricing – 2021," published by The College Board, page 12, Figure CP-2 - Published Tuition and Fees Over Time.

[2] Source: Department of Education website: https://www2.ed.gov/about/offices/list/fsa/index.html, accessed November 8, 2021.

- **Cost of attendance:** To calculate financial aid eligibility, colleges need to first determine the cost of attendance at the institution. The cost of attendance includes, in addition to tuition and fees and books, general living expenses such as rent or dormitory costs, transportation, and personal expenses a student could be expected to incur during the nine-month academic year.
- **Financial aid eligibility or financial need:** Eligibility for need-based financial aid is determined by taking the college's calculated cost of attendance and subtracting the EFC. The difference, if any, is the amount the student may receive in need-based forms of financial aid, including grants, scholarships, and loans.
- **Financial aid package:** Once the need-based eligibility is determined, a college's financial aid office will attempt to provide for that need with a combination or package of financial aid funds that may include grants, loans, scholarships, and work-study funds. The amount and type of financial aid will vary between colleges. In some cases a financial aid package may not cover all costs, leaving a gap that the student and his or her family must cover from other sources.

Federal Financial Aid

A major source of financial aid provided to college students in the U.S. is from programs funded and/or administered by the federal government, with much of the support coming in the form of student loans. The major elements in federal student aid are:

- **Federal Pell Grants:** Pell Grants are designed to assist very low-income undergraduate students and are awarded based on expected family contribution (EFC). Only students with very low EFCs are awarded Pell Grants. Pell Grants do not have to be repaid.
- **Federal Supplemental Educational Opportunity Grant (FSEOG):** Like Pell grants, FSEOGs do not have to be repaid. They are awarded to undergraduate students with exceptional financial need.
- **Teacher Education Assistance for College and Higher Education (TEACH) Grant:** A federal grant to students who agree to teach for four years at an elementary school, secondary school, or educational service agency that serves students. If a grantee does not complete his or her service obligation, the TEACH grant is converted to a Direct Unsubsidized Loan with interest due from the date the TEACH grant was disbursed.

- **Iraq and Afghanistan Service Grant:** A grant awarded to limited group of individuals whose parent or guardian was a member of the U.S. armed forces and who died as a result of military service performed in Iraq or Afghanistan after the events of 9/11. Other requirements apply.

- **The William D. Ford Direct Loan Program:** This program is the Department of Education's main loan program. Direct subsidized loans are made of the basis of financial need. They do not accrue interest nor require repayment until six months after the student ceases to attend college at least half time. Direct unsubsidized loans are not based on need and interest accrues from the date the loan is disbursed. Direct PLUS loans are loans made to graduate or professional students and to parents of dependent undergraduate students to help pay for education expenses not covered by other financial aid. Interest accrues from the date the funds are disbursed, but repayment is not required until six months after the student ceases to attend college at least half time. Direct Consolidation loans allow a student to combine all of his or her eligible federal student loans into a single loan; repayment begins within 60 days of the loan being disbursed.

- **Federal Perkins Loans:** Perkins loans are federal low-interest loans. They are awarded based on need and the availability of funds. No interest accrues while the student is attending school at least half time. Repayment begins nine months after the student ceases to attend school at least half time.

- **Coronavirus Aid, Relief, and Economic Security (CARES) Act:** The CARES Act provided relief for student loan borrowers whose debt was owned by the U.S. Department of Education. For the period from March 13, 2020 to September 30, 2020 these loans were placed in "administrative forbearance," with a 0% rate of interest, allowing borrowers to stop making loan payments. Generally, this provision applied to (1) defaulted and non-defaulted Direct Loans; (2) Defaulted and non-defaulted FFEL Program loan; and (3) Federal Perkins Loans.[1]

- **Federal Work-Study Program (FWS):** The FWS program provides federally funded employment for qualified students in both on-campus and off-campus positions. The amount a student can earn is limited to the amount of the award.

[1] Some FFEL Program Loans are owned by commercial lenders. Some Perkins Loans are owned by educational institutions. These loans are not covered by the "administrative forbearance" proved in the CARES Act.

Other Financial Aid Programs

In addition to the financial aid programs provided through the federal government, there is a wide range of aid available through other organizations.

- **State programs:** Many state governments have their own financial aid programs. Such programs include need-based grants (the family has to show financial aid eligibility), as well as work-study programs, loan-forgiveness programs for targeted careers, and merit-based scholarship programs.
- **Institutional aid programs:** Many schools have additional means of making college affordable. Scholarships, based on either academic or athletic ability, are one example. Some schools have their own student loan programs to replace or supplement federal loan programs. Some institutions offer installment or deferred payment plans for tuition, or a discount may be offered if more than one child from the same family is enrolled, or if the parents are alumni.
- **Military aid programs:** The Armed Forces have available a number of programs to enable prospective, active duty, and former service personnel to attend college. Reserve Officer Training Corps (ROTC) scholarships are available at a number of schools. A ROTC/NROTC Scholarship or an appointment to one of the service academies, West Point, Annapolis, or the Air Force Academy effectively ends any concerns about paying for college. Current active duty personnel can apply for tuition assistance through their education officer. For veterans, the various GI Bills and the Army or Navy college savings funds are additional sources of financing.
- **Private scholarships:** Many private organizations make available scholarships, based on both need and merit. Many scholarships are for relatively small amounts of money or for only a single year and a student may need to apply to many different scholarship programs. Scholarship information is widely available at bookstores and libraries, in high school and college financial aid offices and on the Internet.

Tax Advantaged Strategies

Congress has passed legislation[1] designed to lighten the burden of paying for higher education. Because the rules surrounding these strategies can be complicated, the counsel of a qualified tax or financial professional is recommended.

- **Education tax credits:** Two separate tax credits are available: (1) the American Opportunity Tax Credit, of up to $2,500 per student, per year, for tuition and fees paid during the first four calendar years of college, and (2) the Lifetime Learning Credit, providing a credit of up to $2,000 per return for qualified education expenses. A taxpayer may not take both credits in the same year. Other limitations and restrictions apply.

- **Interest deduction on education loans:** A deduction of up to $2,500, taken as an adjustment to gross income, is available for interest paid on student loans. Certain restrictions and requirements apply.
- **Exclusion of U.S. Savings Bond interest:** Interest earned on U.S. Savings Bonds is normally taxable. However, if a taxpayer pays qualified education expenses, the interest earned on qualified U.S. savings bonds may be excluded from income. Certain income level and filing status requirements apply.
- **Withdrawals from IRAs:** Withdrawals from *traditional IRAs* used to pay qualified education expenses are exempt from the 10% penalty on withdrawals before age 59½. However, such withdrawals are generally subject to ordinary income tax. If certain requirements are met, withdrawals from *Roth IRAs* for any purpose may be made tax and penalty free.

Other Approaches

A number of other approaches can be used to help pay for college expenses. Consider

[1] The rules discussed here concern federal income tax law; state or local law may vary.

carefully the pros and cons of each suggestion, including the income tax ramifications, the impact on any possible financial aid, the likelihood that a student might not complete college, and any effect on your long-term financial goals.

- **Home equity loan:** Parents with equity in the family home may want to consider taking out a home equity loan.
- **Life insurance cash values:** Cash-value life insurance policies can provide another source of low-cost loans.[1]
- **Borrow from qualified plans:** Some types of employer-sponsored qualified plans allow a participant to borrow from the plan. There are generally strict rules regarding the repayment of such loans.
- **Skip a year:** Some colleges will admit a student and defer admission allowing the student to live at home, work full-time and save the earnings for college.
- **Live at home and commute:** A family can save thousands of dollars a year by having a student live at home and commute to school.
- **Choose a lower cost school:** State-supported public colleges and universities generally charge a lower tuition for in-state residents. To further save money, some students begin their studies at less expensive community or junior colleges and then transfer to a four-year school to complete their degree.

Other Resources

There are a number of published references and guides to paying for college available in bookstores and public libraries. In addition to providing a wide range of reference materials, many high schools and colleges offer free financial aid seminars presented by professional financial aid administrators. The state and federal agencies involved in higher education are also excellent sources of information.

On the internet, there are a number of websites which can provide information.

- **The College Board:** https://www.collegeboard.org
- **FinAid:** https://www.finaid.org

[1] Loans from a cash-value life insurance policy will reduce the available death benefit. If a policy lapses or is surrendered with a loan outstanding, the loan will be treated as taxable income in the current year, to the extent of gain in the policy. Also, policies considered to be modified endowment contracts (MECs) are subject to special rules.

- **U.S. Department of Education – student aid website:** https://studentaid.gov/
- **Free Application for Federal Student Aid (FAFSA):** https://studentaid.ed.gov/sa/fafsa
- **CSS/Financial Aid Profile®:** https://studentaid.gov/h/apply-for-aid/fafsa

Begin Early and Seek Professional Guidance

The key step in paying for a child's education is to begin the process as early as possible. A great deal of information, as well as counseling, is available from high schools, colleges and the various government agencies involved in higher education, at little or no cost. Questions involving income, gift, or estate taxes should be carefully reviewed with a Certified Public Accountant (CPA), IRS Enrolled Agent (EA), legal counsel or other qualified professionals.