# Good and Bad News for College Savers

New rules allow college savers to help pay down student loans with tax-advantaged 529 plans. But going to college is more expensive than ever, underscoring the need to establish a regular savings plan well in advance.

The total cost of a four-year private college now averages over $50,000 per year.

Paying for a child's or grandchild's education just got easier -- and more expensive. New legislation expands the use of tax-advantaged 529 plan funds. But a college education will cost you more than ever. Here's a summary of the good and the bad news for college savers.

## First, the Good News…

In December 2019, the SECURE Act was signed into law. In addition to boosting a number of retirement savings incentives, the Act also expanded the use of 529 plan funds. You may now use 529 plans to pay principal or interest on qualified education loans. These include student loans taken out by the designated beneficiary or his or her sibling, up to a lifetime maximum of $10,000. That means you can set up a 529 plan today to help pay off future loans incurred by a child, grandchild, or any other designated beneficiary. In today's world, where the average American college graduate carries over $35,000 in student loans, this can be a good way to lessen the debt burden many face early in their careers.[1]

## …and Now the Bad

College costs are higher than ever. A year at a four-year school is likely to run you anywhere from $18,000 to over $50,000, depending on whether the school is public or private, if the student is an in-state or out-of-state resident, and if the student commutes or lives on campus. Here's a breakdown of average costs for the 2019-2020 academic year.

| | Tuition/ Fees | Room & Board | Books & Supplies | Transpor-tation | Other Expenses | Total |
|---|---|---|---|---|---|---|
| **Public two-year in-district commuter** | $3,730 | $8,990 | $1,460 | $1,840 | $2,400 | $18,420 |
| **Public four-year in-state on-campus** | $10,440 | $11,510 | $1,240 | $1,230 | $2,170 | $26,590 |
| **Public four-year out-of-state on-campus** | $26,820 | $11,510 | $1,240 | $1,230 | $2,170 | $42,970 |
| **Private nonprofit four-year on-campus** | $36,880 | $12,990 | $1,240 | $1,060 | $1,810 | $53,980 |

Source: College Board, Trends in College Pricing 2019

If you're saving for a child's *future* education, you'll also need to factor in inflation. The projected total cost of a four-year public college education in 18 years is over $274,000, and over $622,000 for a private school education.[2]

## Ways to Save

These figures are daunting even for higher-income parents. In fact, anyone looking to put a child through college will want to start saving years in advance. Here are some tax-advantaged options that can help.

**529 plans.** These state-sponsored savings plans offer a number of benefits:

- Generous lifetime contribution limits that often exceed $200,000 per beneficiary.
- Tax rules that let anyone give up to $15,000 in 2020, free from federal gift taxes, to as many individuals as they choose.
- No income restrictions on who may contribute to a 529 plan.
- Money in a college savings plan may be used at any eligible college or university for qualified expenses such as tuition, books, and computer equipment. 529 plans may also be used to fund up to $10,000 per year in qualified expenses at eligible K-12 schools, and as noted above, 529s may now be used to pay back student loans.
- Qualified withdrawals may be exempt from state taxes as well as federal income taxes (tax rules vary from state to state).
- The individual who creates a 529 plan account on behalf of a beneficiary generally maintains complete control over the account. Account owners may also change beneficiaries.

**Coverdell Education Savings Accounts.** These accounts allow tax-free withdrawals for elementary and secondary school expenses in addition to college costs.

- Contributions are capped at $2,000 annually per beneficiary and are made with post-tax money. Excess contributions are subject to a 6% federal excise tax.
- Contributions are not deductible from income for federal tax purposes.
- The deadline to contribute to a Coverdell is generally April 15th, the same deadline that applies to IRAs.
- Account owners may also change beneficiaries.
- You cannot contribute if your modified adjusted gross income is more than $110,000 if you file singly or more than $220,000 if you file jointly.
- The beneficiary can take withdrawals at any time, but any amounts in excess of his or her qualified education expenses will be taxable as income. A 10% additional federal tax may also apply.
- Assets generally must be used before the beneficiary's 30th birthday.

**UGMA/UTMA Accounts.** These custodial accounts for minors are not college savings accounts per se, but they do offer potential gift tax benefits and can be a useful arrangement for accumulating college funds.

- No limits on contributions.
- No withdrawal restrictions as long as the money is used for the benefit of the minor.
- Ownership of the assets by the minor, not the contributor.
- Investment earnings accumulate tax free for the contributor, but the minor may be subject to income taxation at the kiddie tax rate.
- Upon reaching adulthood, the child gains complete control of the account and is not required to spend the money on college.

Whatever option you choose, it may be smart to start saving for your future graduate's college today.

[1]Source: Experian, *Student Loan Debt Climbs to $1.4 Trillion in 2019*, July 24, 2019.

[2]Source: DST Retirement Solutions, LLC, an SS&C company. Based on published tuition, fees, and room and board for the 2019-2020 academic year per the College Board, assuming 6% annual inflation.