

College Savings 101

The gift of a college education is within your reach if you start planning early. Here's our guide to funding a college education for your children or grandchildren.

Families need to save as much as possible and as early as possible to get ahead of rising education costs. According to a research report from CollegeBoard.org¹, the average cost of attending a public four-year college, including tuition and fees, in the 2022 school year is \$10,740 for an in-state student and \$27,560 for out-of-state students. A year at a private college averages even more: \$38,070.

Paying for college can seem like buying a new car every year, but the sticker shock can be lessened if you plan ahead. Here are seven tips to help you get started.

1. Get your retirement in order first

Your kids will have access to more sources of college money than you will once you stop working, so make sure you're on the right path for your own retirement before you set aside money for college.

2. Start early

Even small contributions can add up if you give them time to grow. Investing just \$100 a month for 18 years can yield \$48,000, assuming an 8% average annual return.²

3. Consider a 529 savings plan for big tax advantages

Named after the section of the Internal 529 savings plans are one of the best ways to save for higher education expenses. These qualified tuition plans allow federal tax-free withdrawal of earnings, which can help families afford the rapidly increasing cost of college.

¹ CollegeBoard.org. "[Trends in College Pricing Highlights 2022](#)"

² This information is for illustrative purposes only and not indicative of the performance of any investment. It does not reflect the impact of taxes, management fees, or sales charges.

Another primary benefit of 529 plans is the high contribution limit. Each state operates its own 529 plan and makes its own rules for the plan, so maximum contribution levels vary across states. Fortunately, 529 limits are usually high enough that most will never have to worry about hitting the ceiling, although anyone who considers attending a private university could need to save a significant amount of money.

In addition, you can open a 529 no matter how much you make or the age of the beneficiary, which makes it a particularly attractive vehicle for grandparents who want to lower the value of their taxable estate.

4. Custodial accounts give the child more control over the money

Gifting assets through the Uniform Gifts to Minors Act (UGMA) accounts or transferring assets through the Uniform Transfers to Minors Act (UTMA) accounts can be a practical way to expand the universe of available investment options, but they come with a caveat. UGMA and UTMA accounts weigh more heavily on financial aid decisions because they are considered an asset of the child, not the parent. Plus, their tax benefits are limited when compared to a 529. The biggest consideration, however, is that the money saved becomes the child's at a certain age (18 or 21, depending on the state), regardless of whether they go to college.





5. Set up a Coverdell Education Savings Account for simpler needs

The Coverdell ESA offers tax advantages that are similar to those of the 529 plan, but limits contributions to \$2,000 per year. If you're contributing less than \$2,000 a year, they can be simple to set up and manage. Plus, you can select from a broad range of investment options, including mutual funds.

6. Take advantage of federal tax breaks

Depending on your modified adjusted gross income, you may be able to take the "American Opportunity Tax Credit and Lifetime Learning Credit" in the years you pay tuition.

7. Look for flexible repayment plans

There are still ways to cut costs after your student graduates and begins repaying student loans. For instance, there is typically a slight interest rate discount if you set up automatic debit, in which monthly payments are automatically taken from your account. Federal student loan programs generally have more lenient provisions than private education loans.

ESSENTIAL READING

Internal Revenue Service **Publication 970, "Tax Benefits for Education,"** covers Coverdell ESAs, U.S. Savings Bonds, American Opportunity Credit, Lifetime Learning Credit, and student loan interest and other deductions.

<http://tinyurl.com/IRSPub970>

"Family Guide to College Saving," by Joseph Hurley. Order at www.savingforcollege.com.

"Funding Education Beyond High School: The Guide to Federal Student Aid." Available at www.studentaid.gov or (800) 433-3243.

WEB RESOURCES

General

The **College Board**, paying for college.

<https://bigfuture.collegeboard.org/pay-for-college>

Savingforcollege.com has numerous articles about savings plans, tutorials, etc.

Section 529 Plans

College Savings 101, "Understanding 529 Plans," www.savingforcollege.com.

<http://tinyurl.com/Understanding529>

"Common 529 Questions," College Savings Plan Network, www.collegesavings.org.

<http://tinyurl.com/Common529Questions>

"An Introduction for 529 Plans," U.S. Securities and Exchange Commission, www.sec.gov.

<http://tinyurl.com/IntroTo529>

Coverdell ESAs

"Introduction to ESAs," www.savingforcollege.com.

<http://tinyurl.com/IntroToESAs>

Student Loans

"Choosing a loan that's right for you,"

U.S. Consumer Financial Protection Bureau, www.consumerfinance.gov.

<http://tinyurl.com/ChoosingALoan>

"Consolidating your federal education loans," U.S. Department of Education, <http://studentaid.ed.gov>

<http://tinyurl.com/FedLoanConsolidation>

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