FINANCIAL ASSET MANAGEMENT CORP.

PLANNING TODAY ▸ SECURING TOMORROW

Paying for Your Child's Education

By Scott M. Kahan, CFP®

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How to pay for College?

Types of College Savings Vehicles:

- Coverdell Education Savings Accounts (ESA)
- ROTH IRA's
- Custodial Accounts
- 529 Plans
- New York Saves Plan

Other Ways to Pay For College

- Home Equity
- 401K Plan
- Student Loans
  - Stafford Loan (Subsidized and Unsubsidized)
  - Supplemental Unsubsidized Stafford Loans
  - Federal PLUS Loan
  - Private Loans

Coverdell Education Savings Accounts (ESA)

- Annual Contribution - $2,000
- Tax free growth when used for education expenses (Can be used for elementary and secondary school expenses)
- Funding Limitations based on parents' income-
  - Married Filing Joint $190,000-$220,000- Below $190,000, full amount allowed. Above $220,000, no contribution allowed
  - Single $95,000-$110,000- Below $95,000, full amount allowed. Above $110,000, no contribution allowed
- Must be used by the time the beneficiary turns 30 (otherwise 10% penalty)

  OR

  Can be gifted to another beneficiary under the age of 30
- Investor chooses the investments
- Beneficiaries money when applying for financial aid

ROTH IRA's

- Usually a retirement vehicle but can be used for other expenses.
- No tax deduction for contributions.
- Money grows Tax Free.
- Must have earned income to fund.
    - 2019 Limits - Max is $6,000/$7,000 if 50 or older
- Contributions can be withdrawn tax free and penalty free for college expenses at any time.
- Earnings withdrawn before 59 ½ are penalty free if used for college expenses. But are taxable if held less than 5 years.
- After 5 years, earnings can be withdrawn tax free and penalty free for college.
- 2019 Funding Limitations based on earned income (Modified Adjusted Gross Income)
    - Married Filing Joint $196,000-$206,000- Below $196,000, full amount allowed. Above $206,000, no contribution allowed
    - Single $124,000-$139,000- Below $124,000, full amount allowed. Above $139,000, no contribution allowed

Custodial Accounts

- UGMA or UTMA
- “Mary Smith Custodian, for benefit of Child’s name” (Child’s SS number used).
- Gift tax exclusion used. ($15,000 per person per year for 2018)
- Considered child asset when applying for financial aid.
- Child has the right to withdraw funds at age of majority (18 or 21).
- Subject to the “Kiddie Tax”. But what is the “Kiddie Tax”?

What is the Kiddie Tax?

- Currently, the law that taxes certain investment income of children at their parents' higher rate applies to kids under 18. Any unearned income in excess of $2,200 is taxed at the parents marginal tax rate.

- The law applies to dependent children under 19 and dependent full-time students under 24.

529 Plans

A 529 plan is a tax-advantaged investment plan designed to encourage saving for the future higher education expenses of a designated beneficiary. It is named after section 529 of the Internal Revenue Code and is administered by state agencies and organizations.

529 Plans

- **Ownership by contributor, child is beneficiary. FAFSA implications based on who owns the account.**
- State sponsored investment program. Variations from state to state.
- Can fund any state plan. Residency may be required if tax deduction is allowed.
- Tax free growth when used for higher education expenses (tuition, fees, room, board, books, supplies and required equipment.
- Account owner (contributor) controls the money, not the beneficiary (child).
- No income limitations as with Coverdell Education IRA.
- Qualifies for the $15,000 annual gift tax exclusion ($30,000 for married couples) per child. Can fund five years at once ($75,000 single/$150,000 married),as long as no other gifts given to the same beneficiary during the next five years.
- If not used for named beneficiary, it can be used for other family members.
- Since considered asset of owner, should not be considered child asset for financial aid eligibility. (Unless student is the owner).
- If the beneficiary receives a scholarship, the earnings on the amount withdrawn would be taxed at the scholarship recipient's tax rate, but will not be subject to the 10% penalty (or change the beneficiary to another family member)
- Can be used for private K-12 school

New York 529 Direct Plan

- Managed by Vanguard/ Upromise
- New contributions can be invested within 3 aged based investment options (conservative, moderate, and aggressive) and 13 individual options. You may choose up to five investment options per account
- One change per year allowed among investment options for money in the account.
- Can't be funded once all accounts for a named beneficiary reach $520,000. You can fund other state 529 plans.
- New York State allows up to $10,000 annual income tax deduction for married filing joint or $5,000 for single filing.
- Details can be found at www.nysaves.com.

Other Ways to Pay for College

- Home Equity
- 401K Plan
- Student Loans
  - Stafford Loan (Subsidized and Unsubsidized)
  - Supplemental Unsubsidized Stafford Loans
  - Federal PLUS Loan
  - Private Loans
- **HORACE GREELEY SCHOLARSHIP FUND**
  - www.hgsf.org
  - Horace Greeley Scholarship Fund exists to make up "the difference" between the actual costs of college and all other financial resources available to students and their families.

- ***Excelsior Scholarship-NYS***
  - *Free SUNY, CUNY and Community college tuition for families with incomes up to $110,000 in 2018 rising to $125,000 in 2019. This would cover tuition only.*

College Loans (Rates for 2020-2021 Academic year)

<table>
<tr><th></th><th colspan="2">Federal Stafford Loans</th><th>Additional Unsubsidized Loans</th><th>Federal Parent PLUS Loans</th><th>Alternative/Private Student Loans</th></tr>
<tr><td>Borrower</td><td colspan="2">Student</td><td>Student</td><td>Parent</td><td>Student
(with parent co-signer)</td></tr>
<tr><td>Interest Rate</td><td colspan="2">2.75%</td><td>2.75%</td><td>5.3% fixed</td><td>Varies by loan product and credit score</td></tr>
<tr><td>Loan Fees</td><td colspan="2">1.0%</td><td>1.0%</td><td>4.2%</td><td>Varies by loan product</td></tr>
<tr><td>Credit Check</td><td colspan="2">No</td><td>No</td><td>Yes (no adverse credit)</td><td>Yes
(credit requirement set by lender)</td></tr>
<tr><td>Cosigner Required</td><td colspan="2">No</td><td>No</td><td>No</td><td>Varies by lender but usually yes</td></tr>
<tr><td rowspan="3">Annual Loan Limit</td><td>0-23 Credits (Freshmen)</td><td>$3,500</td><td>$2,000</td><td rowspan="3">Cost of Attendance
less other financial aid</td><td rowspan="3">Cost of Attendance
less other
financial aid</td></tr>
<tr><td>24-53 credits (Sophomores)</td><td>$4,500</td><td>$2,000</td></tr>
<tr><td>54+ credits
(Juniors/Seniors)</td><td>$5,500</td><td>$2,000</td></tr>
<tr><td>Aggregate Loan Limit</td><td colspan="2">$23,000</td><td>$31,000
(of which no more than $23,000 can be subsidized)</td><td>None</td><td>Varies by loan product</td></tr>
<tr><td>Repayment Begins</td><td colspan="2">6 months after graduation (or drop to less than half-time enrollment)</td><td>6 months after graduation (or drop to less than half-time enrollment)</td><td>60 days after final disbursement or parent can contact lender for deferment until student graduates</td><td>Varies by loan product</td></tr>
<tr><td>Repayment Terms</td><td colspan="2">10-25 yrs based on balance owed</td><td>10-25 yrs based on balance owed</td><td>10-25 yrs based on balance owed</td><td>Varies by loan product</td></tr>
<tr><td>Eligible for Federal Loan Deferments or Forbearances</td><td colspan="2">Yes</td><td>Yes</td><td>Yes</td><td>No</td></tr>
<tr><td>Eligible for Federal Consolidation</td><td colspan="2">Yes</td><td>Yes</td><td>Yes</td><td>No</td></tr>
<tr><td>Interest Pmts Eligible for Federal Tax Deduction</td><td colspan="2">Yes</td><td>Yes</td><td>Yes</td><td>No</td></tr>
<tr><td>Eligible for Federal Loan Forgiveness</td><td colspan="2">Yes</td><td>Yes</td><td>Yes</td><td>No</td></tr>
</table>

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SCOTT M. KAHAN, CFP®

President and Senior Financial Planner

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Helping clients realize their financial goals has been Scott's driving passion his entire career– a career of which has spanned for more than 35 years. In those years, he has seen trends in investment management, technology, planning style and consumers' whims come and go, but one thing he knows that has always held true is that a comprehensive and long-term approach is what provides the best road-map to financial success.

Scott launched FAM in 1986 with the vision to provide individual, families and small businesses with the tools and resources to make and implement informed financial decisions in a fee-only model. In 2018, that vision remains the same and is the cornerstone to the success of the firm and their clients.

Scott's knowledge and extensive experience lead him to educating future financial planners at the financial planning programs of Marymount College, Baruch College and New York University (NYU) – where as an Adjunct Associate Professor of Financial Management at NYU, he was a recipient of the "Award for Teaching Excellence."

The media turns to Scott regularly as a credible source to discuss investment and financial planning related issues. His on-air appearances include: Nightline, CNBC, CNN, FOX and ABC Evening News. He has appeared in both print and online for such outlets as The Wall Street Journal, The New York Times, Money Magazine, Time and Business Week.

Outside of days helping clients, his commitment to serving the community at large is at the forefront of how he dedicates his time outside of the office. Within the financial planning profession, Scott plays an integral role in the advancement of the profession by serving as an active member of the Financial Planning Association (FPA). Having served on the FPA's National Board of Directors for five years, Scott continues his involvement and has served as chairs for a number of their educational conferences and is currently a member of the Editorial Advisory Board for FPA's *Journal of Financial Planning*.

For the consumer community, Scott uses his professional experience to serve and educate the community at large. He currently serves as Chair for the Foundation For Financial Planning, a non-profit organization supporting the delivery of pro bono financial planning to those in need. He regularly provides seminars for parents on college planning at the local high school in his hometown of Chappaqua, NY, and served as board member and treasurer for the Board of Directors for the Horace Greeley Scholarship Fund.

In 2017, his demonstrated commitment and passion in doing extraordinary work to give back to the financial planning community and the public earned him FPA's Heart of Financial Planning Award. In his spare time, Scott enjoys traveling and spending time with his family.

Scott earned his CERTIFIED FINANCIAL PLANNER™ certification from the College for Financial Planning and received his Bachelor of Arts Degree from Syracuse University.