Paying for College

WELCOME AND INTRODUCTION

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Paying for College discusses different types of financial aid for you and your children, including scholarship opportunities, college savings plans, and available tax incentives.

THE COST OF COLLEGE

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According to the College Board, the average cost of one year of public education is $16,400, and $33,000 for a private college. A child born in 2007 will pay $193,200 (public) or $388,700 (private) for a four-year education. Experts expect college costs to continue to rise 6% annually on average. However, when grants, tuition assistance, scholarships and other financial aid is taken into account, nearly 42% of fulltime undergraduates at four-year schools pay less that $6,000 a year in tuition and fees, roughly 70% pay less that $12,000, and only 7% pay more than $30,000 a year. College is also taking longer, with public schools averaging 6.2 years and private schools averaging 5.3 years to graduate.

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While education costs can be high, consider the alternative. The lifetime earnings gap between college and high school graduates is over $1 million. College graduates earn 63% (men) to 70% (women) more than high school graduates. They also have an easier time finding jobs – the unemployment rate for college grads is just 2.3 %. A college education is important, but can be costly. So, how do you plan to pay for it?

EDUCATION BENEFITS IN THE MILITARY

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Education is the number one reason for joining the military. Military service offers a tremendous array of educational benefits that can be used while on active duty and after you leave service. For information on these programs, refer to the Navy College website at www.navycollege.navy.mil and visit with an education counselor at the nearest Navy College Office.

Montgomery G.I. Bill – provides up to 36 months (four regular school years) of education benefits for college, business, technical, vocational, or correspondence courses, as well as apprenticeship/job training and flight training. The cost is $100.00/month, taken out of the member's pay

during the first 12 months of service.

Tuition Assistance (TA) Program – the Navy's educational financial assistance program, provides active duty personnel funding for tuition costs for courses taken in an off-duty status at an accredited college, university or vocational/technical institution. TA pays up-front the tuition and fees charged by educational institutions for course enrollments. There is a fiscal year credit limit of 16 semester, 24 quarter, 240 clock hours, or 24 CEUs per individual.

"MGIB Top Up" – combines TA with VA Benefits. If you are eligible for the MGIB, you may be eligible to be reimbursed for the remainder of your course costs (the amount on your military TA form which is not paid by the Navy).

Loan Repayment Program (LRP) – your service may partially or fully repay college loans.

Veterans Educational Assistance Program (VEAP) – an education benefit program for Veterans who paid into VEAP while they were in service. Eligible members may be entitled to as much as 36 months of training.

Reserve Educational Assistance Program (REAP) – provides up to 36 months of education benefits to members of the selected reserves.

Work-Study Program – Veterans who train three-quarter time or full-time may be eligible for a work study program in which they work for the VA and receive hourly wages.

FINANCIAL AID

Each year, thousands of students try to figure out a way to pay for college. According to the Department of Education, only 4-6% of students receive private scholarships. However, opportunities do exist for all students to get a good education regardless of the family finances. Taking advantage of these opportunities requires planning. When do you start looking? Financial advisors recommend starting grant and scholarship research in the sophomore year of high school. Students interested in grants and loans should contact their College or University's Financial Aid Office which can provide information and application forms.

Terminology

You need to be familiar with the following important definitions related to financial aid.

- *Grants are financial aid that students don't have to pay back.* In addition to federal grants, institutions award money based on academic achievement. Some require proof of financial need and some do not.
- *Work-study lets the student work and earn money to help pay for school.* Students are paid directly or have the money applied to covered institutional expenses.
- *Loans are borrowed money that students must repay with interest.* Credit checks are required but do not necessarily determine eligibility for Federal loan programs. Private loans dictate their own requirements.
- *Scholarships are forms of aid that do not have to be repaid* and are generally based on meeting specific qualifications (academic, athletic, artistic, financial need, etc.) or being part of a specific group (for example, a submariner's child from Idaho). Many are privately funded.

Two-thirds of undergraduate students graduate with some form of debt. The average federal student loan debt is $16,888 (for Stafford and Perkins Loans). If you include PLUS loans (see page 4), the average debt rises to $19,785.

Loans and Grants

The United States Department of Education has the following major student financial aid programs.

- *Federal Pell Grants:* A needs-based grant to help undergraduates pay for their education. As a grant, it does not have to be repaid. The maximum award for 2007-8 is $4,050. Eligibility is determined by a standard formula which produces an Expected Family Contribution (EFC). How much the student will get depends on the EFC, the cost of the education, and whether the student is full or part-time.
- *Academic Competitiveness Grant (ACG):* For undergraduates receiving Pell Grants and enrolled fulltime in their first or second year of study. The amount for the first academic year can be up to $750 and for the second academic year up to $1,300. Recipients must complete a rigorous secondary school program of study and keep a 3.0 cumulative GPA.
- *National Science and Mathematics Access to Retain Talent Grant (National SMART Grant):* For undergraduates receiving Pell Grants and

enrolled fulltime in their third or fourth year of study. Recipients must be in an eligible degree program majoring in physical, life or computer sciences, engineering, technology, mathematics, or a "critical need" foreign language, and have at least a 3.0 cumulative GPA. Awards are up to $4,000 for each of the third and fourth academic years.

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- *Federal Stafford Loans:* A low-interest loan made to students attending undergraduate or graduate school at least half-time. Loans are made by a lender such as a bank, credit union or savings and loan association (Federal Family Education Loan, or FFEL Stafford Loan), or if the school is participating in the Federal Direct Loan Program (Direct Loan), funds come directly to the student from the U. S. Government. Interest rate is 6.8%. Amount you can borrow depends on dependency status and year in school. For FFEL loans, the repay takes place from 10 to 25 years, and for Direct loans the repay takes place from 10 to 30 years.

- *Federal PLUS Loans:* For parents who want to borrow to help pay for their children's education. The child must be a dependent undergraduate student enrolled at least half-time. PLUS Loans are available through the FFEL Program and the Direct Loan Program. Parents can get either loan, but not both, during the same enrollment period, and they must have an acceptable credit history in 2007. Interest rates range from 7.9 – 8.5%. Yearly limit on the amount borrowed is the cost of attendance minus any other financial aid received. Repay times are the same as for the Stafford loans.

- *Federal Consolidation Loans:* Allows a borrower to combine different types of federal student loans to simplify repayment. The interest rate may be lower than the rates on your other loans. It is a fixed rate for the entire life of the loan and based on the average of the interest rates of the loans at the time you consolidate.

Campus-based programs are administered by the school and are dependent on the availability of funds at the school.

- *Federal Perkins Loans:* A low interest loan to help undergraduate or graduate students with exceptional financial need, as determined by the school. The school is the lender and the loan is made with government funds. The loan is repaid to the school and must be repaid over 10 years or less. Interest rate (2007) is 5%. Maximum amount is $4,000 per year up to $20,000 total for undergraduate and $6,000 per year up to $40,000 for graduate study.

- *Federal Supplemental Educational Opportunity Grants (FSEOG):* For undergraduates with exceptional financial need as determined by the school, that is, students with the lowest EFC; gives priority to students who receive Federal Pell Grants. Awards vary from $100 - $4,000 per year.
- *Federal Work Study (FWS):* Provides jobs for undergraduate and graduate students who need financial aid. It gives the student a chance to earn money to pay for educational expenses. The program encourages community service work and work related to the student's course of study.

Application Tips

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To apply for student financial aid from the federal government, including the Pell Grant, Perkins Loan, Stafford Loan and work-study, you will need to submit the Free Application for Federal Student Aid (FAFSA). To fill out the application online go to www.fafsa.ed.gov. There is no charge for submitting this form. Check the application deadline so that you do not miss out on the opportunity. You cannot submit a financial aid application until January 1, as income and tax information is used in determining your eligibility for need-based aid. However, deadlines for the schools you are interested in are usually much earlier. Check with their financial aid offices to be sure you don't miss their deadline dates. Most financial aid offices require that you apply for aid each year.

You should apply for aid every year, even if you think you don't qualify. A change in the family financial situation or number of children attending school in the same year can affect eligibility for student aid. If you don't qualify for other aid, consider using PLUS loans, or take out a home-equity line of credit on which the interest is tax-deductible. Also consider having your child borrow the funds for their education as the Stafford Loan has lower rates than the PLUS loan. In reality, few families with parental income over $100,000 qualify for need-based aid.

In addition to completing and submitting the FAFSA, if you go to a private school or even some public schools, you may also be asked to fill out the CSS/PROFILE form, which the school will use to consider aid that it will distribute. The good news is, no matter how many schools you apply to, you will only need to file one FAFSA and/or one CSS/PROFILE form. Each of these forms has space where you can indicate the schools that you are applying to that will need this information. Check with your school to make sure you submit the right form and keep in mind that in addition to the FAFSA and CSS/PROFILE, there may still be other forms required by the

school. Thoroughly read all of the financial aid requirements for each school you will apply to.

Institutional Grants

There are other grants in addition to those from the Federal Government. Colleges provide institutional grants to help make up the difference between college costs and what a family can be expected to contribute through income, savings, loans, and student earnings.

Other institutional grants, known as merit awards or merit scholarships, are awarded on the basis of academic achievement. Some merit awards are offered only to students whose families demonstrate financial need; others are awarded without regard to a family's finances.

Some grants come with special privileges or obligations. You'll want to find out about the types of grants awarded by each college you are considering.

Paying for College: A Financial Aid Calendar

The handout "Paying for College: A Financial Aid Calendar" is an extensive listing of important steps to take to make sure you don't miss any financial aid deadlines. The key to successful college financing is to start early. Parents with students in their sophomore year of high school should read through the calendar and begin to mark specific dates in their personal planners. Review the calendar again at the beginning of the junior year so you will be ready to take action when senior year rolls around.

SCHOLARSHIPS

Military Specific

Scholarship and grant opportunities are everywhere, but you won't get a scholarship if you don't apply for one. Millions of dollars are available through scholarships every year, but thousands of dollars in scholarship money goes unclaimed. If you know where to look, you can find scholarship money for your child, or even for yourself, to attend college. Many scholarship opportunities are available specifically to military families.

The handout "Paying for College: Financial Assistance Resources" lists just a few of the scholarships open to military family members. There are many more available through service related organizations and even specific command groups. Many of these awards are open to a

relatively small group, so your chances of being awarded a scholarship are better. It's okay to apply for several different scholarships, in fact, you should to increase your chances of an award.

Search Engines

The handout "Financial Assistance Resources" lists websites and search engines for a broader search for scholarship dollars. Remember that usually scholarship amounts for tuition and fees are tax-free, but you should always review the rules to be certain. Take advantage of these financial opportunities – apply for scholarships and find interest-free loans. With those extra dollars, you can afford the cost of a college education.

Scams

Avoiding Scams and Identity Theft

Be on the lookout for scholarship scams. Every year the victims of these scams lose more that $100 million. If it sounds too good to be true, stay away. If you have to pay money to get money, it's probably a scam. Even the Federal programs are not safe from scam artists. For example, someone claiming to work at the U.S. Department of Education (ED) is calling students, offering grants or scholarships, and asking for bank account numbers so a processing fee can be charged. Sometimes the caller tells the student he (or she) understands the student has federal student loans and offers to replace the loans with a grant. The caller explains that a processing fee must be charged and asks for the student's checking account information. There is no ED program to replace loans with grants. There is no processing fee to obtain grants from ED. Never provide your bank account or credit card information over the phone unless you made the call and trust the company you are calling.

When it comes time to apply for scholarships and financial aid, review the information on the handout "Avoiding Scams and Identity Theft", and you will reduce the risk of becoming a victim.

SAVING FOR COLLEGE

Savings Programs and Tax Incentives

Starting Early

Parents should expect to pay one-half to two-thirds of their children's college costs through a combination of savings, current income, and loans. Gift aid from the government, colleges and universities, and private scholarships accounts for only about one-third of total college costs. It is very important that parents start saving for their children's education as soon as

possible, even as early as the day the child is born. Time is one of your most valuable assets. The sooner you start saving for college, the more time your money will have to grow.

If you start saving early enough, even a small weekly or monthly investment can grow to a significant college fund by the time the child graduates. For example, saving $50 a month from birth would yield about $20,000 by the time the child turns 17, assuming a 7% return on investment. Saving $200 a month would yield almost $80,000.

What if you want to cover education at a four-year public college that costs $16,400 a year in today's dollars? If you start saving at birth you must save about $4,800 a year or $400 per month (assuming an 8% annual rate of return and 6% annual inflation in college costs). Wait until that child is 6 and you must save $9,600 a year or $800 per month. Wait until age 14 and you will need to invest $16,800 annually, which is $1,400 per month. The message – start early!

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Section 529 Plans

There are two types of Section 529 plans, prepaid tuition plans and college savings plans. All states now have at least one type of plan. The prepaid plan lets you pay today's rates for future college needs. The Savings plan allows you to invest money in an account that grows tax-free until the child is ready to go to college. 529 plans are exempt from federal income tax and are often exempt from state and local income taxes. You don't pay any taxes on the money in the account as it's growing and withdrawals used for higher education are tax-free. Each state's plan differs slightly, so research the differences and costs to find the best fit for your needs.

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529 plans offer several benefits:

- Contributions grow tax-deferred until withdrawn for qualified education expenses and withdrawals are tax-free. Many states offer tax breaks for your contributions.
- No annual limit. Anyone can make contributions to the account.
- There are no income restrictions, so you can open an account no matter how much you make.
- The contributor owns the account and has control over it.
- If your child decides not to go to college you can change the ben-

eficiary to another family member, hold it and hope they change their mind, or, if the account is in your name, take the money.

- There are no income limits and these plans have high total contributions limits. Total limits go as high as $305,000.
- These plans are flexible; you can open a plan in any state, regardless of residency.
- The savings plans are portable – meaning the money can be used at any qualifying institution, not just those in your state.
- When its time to pay the college bills, the money can be used for almost any cost associated with higher education – tuition and fees, books, computers, supplies, and room and board.

Drawbacks of the 529 Plans include:

- Nonqualified withdrawals will incur a penalty. If you cancel the account and receive a refund, you will have to pay federal income taxes on the earnings and a 10% tax penalty.
- Section 529 Prepaid Tuition Plans are treated as a resource, which means they reduce the ability to qualify for need-based financial aid. When you withdraw money from a Prepaid Tuition Plan to pay for college, there is a dollar-for-dollar reduction in your need-based aid package.
- Prepaid Tuition Plans let you lock in future tuition rates at current prices. They do not guarantee admission into college. Prepaid accounts can only be used to pay the bills at schools in the Plan's state.
- The Savings Plans are investments subject to market conditions. There are no guarantees.

Not all Plans are created equal. Some have hefty expense ratios. In addition to the state Plans, many 529 Plans are being opened through a broker, so be on the lookout for loads and commissions, too. As with any investment, be sure you understand the fees and expenses before investing. You will find it helpful to choose a 529 Plan if you first attend a Saving and Investing class offered at the Fleet and Family Support Center. Choosing a 529 Plan usually includes making a decision about the underlying investments, so knowledge of basic investment tools will help you make the best choice.

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Coverdell Education Savings Accounts

Coverdell Education Savings Accounts (ESA) used to be called Education IRA's. Coverdell accounts are exclusively for the purpose of paying qualified education expenses. Contributions to an ESA are not tax-deductible, but earnings grow tax-deferred and qualified distributions are tax-free. Non-qualified withdrawals are taxed as ordinary income at the donor's rate and subject to a 10% tax penalty.

Plan details:

- Maximum contribution of $2,000 per beneficiary per year.
- The student or the student's parent may own ESA.
- The money must be used by the time the child reaches age 30 or the earnings will be taxed as ordinary income plus a 10% penalty.
- Accounts may be transferred to the ESA of a family member.
- Contributions are phased out for incomes between $95,000 and $110,000 (single filers) or $190,000 and $220,000 (married filing jointly).
- Primary, secondary, and post-secondary education expenses, including tuition, fees, tutoring, books, supplies, related equipment, room and board, uniforms, transportation and computers are considered "qualified expenses".
- ESAs can be used to pay for elementary and secondary education. Computers are included as a qualified expense for students in elementary and secondary schools even if the school does not require them.
- You can contribute to both an ESA and a Section 529 Plan in the same year.

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Tax-free distributions from an ESA and a 529 Plan can be taken in the same year, but not for the same expense. The ESA and 529 Plans may be used for room and board. 529 Plans are less restrictive with regard to room and board. ESAs permit elementary and secondary school tuition expenses, which are not permitted by 529 Plans. If you have money left over in a 529 or ESA after school finishes, you will owe a 10% penalty or must switch the money to another beneficiary.

U. S. Savings Bonds

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US Savings Bonds – The Education Bond Program offers a low-risk investment option for saving for your children's college education. Backed by the full faith and credit of the US government, principal and earned interest are safe and cannot be lost due to market changes.

Program details:

- Series EE Savings Bonds and Series I Savings Bonds offer special tax benefits when used for qualified education expenses (tuition and required fees) or to roll over into a Section 529 Plan.
- Qualified expenses are reduced by the amount of any financial aid received in the same tax year, including the amount of other education tax-breaks.
- Room and board and books are not included as qualified expenses.
- Parents can purchase bonds for their children, but the bonds must be registered in the parent's name. The child cannot be listed as a co-owner, but may be listed as a beneficiary.
- You can also purchase bonds for your own education, in which case the bonds must be registered in your name.
- There is an annual purchase limit of $30,000 per owner for Series EE Bonds and $30,000 for Series I Bonds.
- The full interest exclusion is only available within certain income limits, single modified AGI $63,100 to $78,100, married filing jointly $94, 700 to $124, 700. These income limits apply in the year you use bonds for educational purposes--not the year you buy the bonds.
- You can cash in Savings Bonds in the same year as using an ESA or 529 Plan as long as it is not for the same expense.

Custodial Accounts

Parents cannot simply transfer assets to their minor children, but instead must transfer the assets to a trust. The most common trust for a minor is known as a custodial account (a UGMA or UTMA account).

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The Uniform Gift to Minors Act (UGMA) established a simple way for a minor to own securities. A state statute instead of a trust document establishes the terms of this trust. The Uniform Transfer to Minors Act (UTMA) is similar, but also allows minors to own other types of property and for the transfers to occur through inheritance.

How they work:

- Any money placed in a custodial account belongs to the minor child but is controlled by the custodian until the minor reaches the age of trust termination (18 to 21, depending on the state and type of trust).
- The donor irrevocably gifts the money to the account.
- The income from the custodial account must be reported on the child's tax return and is taxed at the child's rate. The parent is responsible for filing an income tax return on behalf of the child. There is no special tax treatment for UGMA accounts. Children aged 14 and older must sign their own tax returns.
- Neither the donor nor the custodian can place any restrictions on the use of the money when the minor becomes an adult. At that time, the child can use the money for any purpose whatsoever without requiring permission of the custodian, so there's no guarantee that the child will use the money for his or her education.
- UGMA and UTMA accounts are in the name of a single child; the funds are not transferable to another beneficiary.
- For financial aid purposes, custodial accounts are considered assets of the student. This means there is a high impact on financial aid eligibility.

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Saving in the Parents' Names

Saving money in taxable accounts in the parents' names has several advantages and disadvantages. If you decide to invest in your own name, use resources that will help to minimize your taxes.

Advantages:

- The parent maintains control over the assets.
- The impact on financial aid eligibility is low, because the money is a parent asset.
- There is flexibility on choosing investments.
- You can use the money for another purpose if the child decides to not go to college.
- You can take full advantage of the other education tax benefits, such as the Hope Scholarship and Lifetime Learning tax credits

(see page 15).

- There are no limits on the amount you can invest.

Disadvantages:

- Earnings are subject to income and/or capital gains taxes at the parent's rate.
- You may be tempted to use the funds for a different purpose.
- There are no special tax-breaks for qualified education expenses.

Penalty-Free Withdrawals from Individual Retirement Accounts

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Using your retirement funds is another way to pay for college expenses. Normally, if you withdraw money from a traditional or Roth IRA before you reach age 59 1/2, you would pay a 10% early distribution penalty and any regular income tax due. There is an exception for distributions used to pay qualified higher education expenses.

- The portion of the distribution used for qualified higher education expenses is exempt from the 10% early distribution penalty, but you will still pay income tax.
- The qualified higher education expenses must be for you, your spouse, your children or your grandchildren.
- Qualified higher education expenses include tuition, fees, books, supplies and equipment, as well as room and board if the student is enrolled at least half-time in a degree program.
- Remember, this is your retirement money and you will still need to take care of yourself.

Be careful when considering this option. There is no scholarship for old age. Fund your own retirement first. You can borrow for education, but who is going to lend you money for retirement? No one.

With a traditional IRA, the full amount of the distribution is still subject to income tax. With a Roth IRA, the portion of the distribution that comes from your contributions is tax-free, but the portion that comes from earnings is subject to income tax if withdrawn before you reach age 59 1/2. (If you've reached age 59 1/2 and have held the Roth IRA for at least five years, the entire distribution is tax-free.) If you limit your withdrawals from a Roth IRA to just the contributions, the entire withdrawal is tax-free.

Using a traditional IRA or Roth IRA for qualified higher education expenses really just eliminates the 10% early withdrawal penalty.

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Impact on Financial Aid

In general, it is better to have assets in the parent's name. Colleges usually consider 35% of a child's assets as being available each year to pay for school, while considering just 5.5% of the parent's assets as available. Money in a 529 Plan and Coverdell ESA belongs to whoever funded the plan, not the child, and so is favorable when it comes to applying for aid. Money in a custodial account belongs to the child.

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Other Strategies to Minimize College Costs

Learn faster – Take accelerated courses, advanced placement and IB courses in high school, or attend summer class sessions. This could result in a sophomore status in the first year of school.

Start small then move up – consider a community college then transfer to a four year university. Most credits will transfer and community colleges are considerably less expensive.

Get a little help from your friends and relatives – ask for monetary gifts for school.

Keep an eye on your bill – many times there will be items placed on the fee bill that a student doesn't need. For example, if the university adds a fee for insurance and the student is already covered, you could save a considerable amount.

Consider living off campus – living off campus is a viable way to save a significant amount of money if your student is mature enough to live on his or her own, and can find the right roommates and apartment.

Fully evaluate all meal plan options – there are several different options, and if your student is not a big eater, choose a lower level meal plan.

Shop around for textbooks – the campus bookstore may not be the cheapest option. Look into online book sellers and consider buying used textbooks. Sell old textbooks back to help pay for next semesters books.

Encourage your student to get a job – employment is often available on campus, or if transportation is available, in the area surrounding the school. If your student has extra time on his or her hands, suggest a

job to cut expenses.

Talk to your financial aid counselor to make sure you didn't miss any grant or aid opportunities. Remember, every little bit helps.

TAX INCENTIVES

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The government provides several tax incentives for citizens paying for college. In order to utilize any of the options the student must be enrolled at least half-time in a degree program.

Hope Scholarship Credit

A $1,650 tax credit per student per year is available for education expenses during the first two years of post-secondary school. This credit is not available to higher income parents; singles with adjusted gross income over $55,000 or couples with adjusted gross income over $110, 000. This credit cannot be used if you pay the entire tuition bill with money from a 529 Plan or ESA, so make sure to pay at least $2,200 from another source of money.

Lifetime Learning Credit

This tax credit can take up to $2,000 off your tax bill if you spend at least $10,000 in tuition and student expenses (including your own) that do not qualify for the Hope credit. This money must also come from a source other than a 529 Plan or ESA. The income limits for using this credit are the same as for the Hope credit. You only get this credit one time each year based on the tuition paid, not once for each student like the Hope Scholarship.

Limited Deduction for Tuition Expenses

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If your income is too high for either of these credits, you may be able to take an income-tax deduction for tuition and related expenses of $4,000. You can take this deduction even if you don't itemize. Once again, the money cannot come from an ESA or 529 Plan. The limits are $65,000-$80,000 single and $130,000-$160,000 married. This deduction can be used in conjunction with money from tax-free sources like the ESA, 529 Plan, and Savings Bonds, but not for the same expense.

Student Loan Interest Deduction

You can deduct up to $2,500 in student loan interest as an adjustment to income. This deduction is phased out for those with adjusted gross income of $50,000-$65,000 single and $100,000-$130,000 married filing jointly. The person obligated on the loan gets the deduction. For example, if a grandparent makes payments for a loan taken out by the grandchild, the grandchild takes the deduction, not the grandparent. Again, the expenses must have been paid with money from sources other than those tax-free education resources we have discussed.

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The Fine Print on Using Tax Incentives

The basic rule is – no double dipping. You cannot use the Hope Scholarship with the Lifetime Learning Tax Credit for the same student in the same year, but you can use them for different students' educational expenses in the same year. You cannot use the Hope and the Limited Deduction for the same student in the same year. The Hope and Lifetime Learning tax credits can be claimed in the same year that you take tax-exempt distributions from 529 Plan or ESA as long as the money for them comes from another source.

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Determining which option is the best for maximizing your education benefits requires planning. Here are some guidelines from the FinAid website:

- Since the Hope Scholarship is a tax credit of at least 50% of the amount of the expenses, it is better than the tax deductions and exclusions from income.
- Since the Lifetime Learning tax credit is 20% of the amount of the expenses, whether or not it is better than tax deductions and exclusions from income depends on your tax bracket. If your tax bracket is less than 20%, the Lifetime Learning tax credit is better than the tax deductions and exclusions from income.
- The tuition and fees deduction is taken as an above-the-line exclusion from income. Since this reduces the AGI, it can potentially make you eligible for additional financial aid next year. If that aid is in the form of grants instead of loans, it can potentially make the tuition and fees deduction more attractive than the Hope Scholarship or Lifetime Learning tax credit.
- If you can take either the Hope Scholarship or the Lifetime Learning tax credits for a student, prefer the Hope Scholarship.

SUMMARY AND CONCLUSION

College Savings Checklist

Which Plan is Best?

As you can see by looking at the handout "College Savings Checklist", you have some work do to in order to make an informed decision that best fits the circumstances of your family and your tolerance for risk. There is no single "best fit for all" program. Your family income, tax bracket, likelihood of receiving financial aid, likelihood of receiving scholarships, potential of gifts from relatives, number of children in college at the same time, and potential military service benefits are all factors in your decision.

Take Action

According to *Kiplinger's Personal Finance Magazine*, "In a perfect world folks should put the first $2,000 in a Coverdell [ESA], then find a 529 Plan. In practice, most people just set up a 529 Plan because it offers one-stop shopping. If you are still not sure which college saving program to use, pick one and pull the lever anyway. Saving somewhere is always better than saving nowhere at all."

Conclusion

This program has reviewed all of the critical factors that you must consider when funding a college education, including:

- College costs
- Military benefits
- Financial aid and scholarships
- College Savings Plans and other saving options
- Tax Incentives

The earlier you start, both in your child's life (saving) and in his or her high school years (researching grants and loans), the better your chance of fully funding a college education. Explore all of the available options and use your resources when needed.