THE

College Payment Puzzle:

Eight Strategies for High-Earning Families

Introduction

High-earning families can face a unique challenge in paying for education. They often don't qualify for financial aid, but income levels may not be high enough to add college costs to an already full plate of current expenses and retirement savings goals.

A successful strategy starts with thinking about it as a puzzle you assemble. Funding may come from several sources and planning ahead makes a big difference. The first step is the school selection process, and information is key to making the best choice for your child – and your family budget.

Maximizing scholarships, tax advantaged savings, and other financial strategies can help keep your child's education and your future goals on track.

01

Be Strategic About School Selection

Your goal is two-fold: Find a school your child loves, and get the highest aid package possible.

You have the most ability to control costs if you can be creative, disciplined and thorough.

Merit-based aid will be the foundation of your search process, and it isn't as hard to get as you think.

Three-step process:

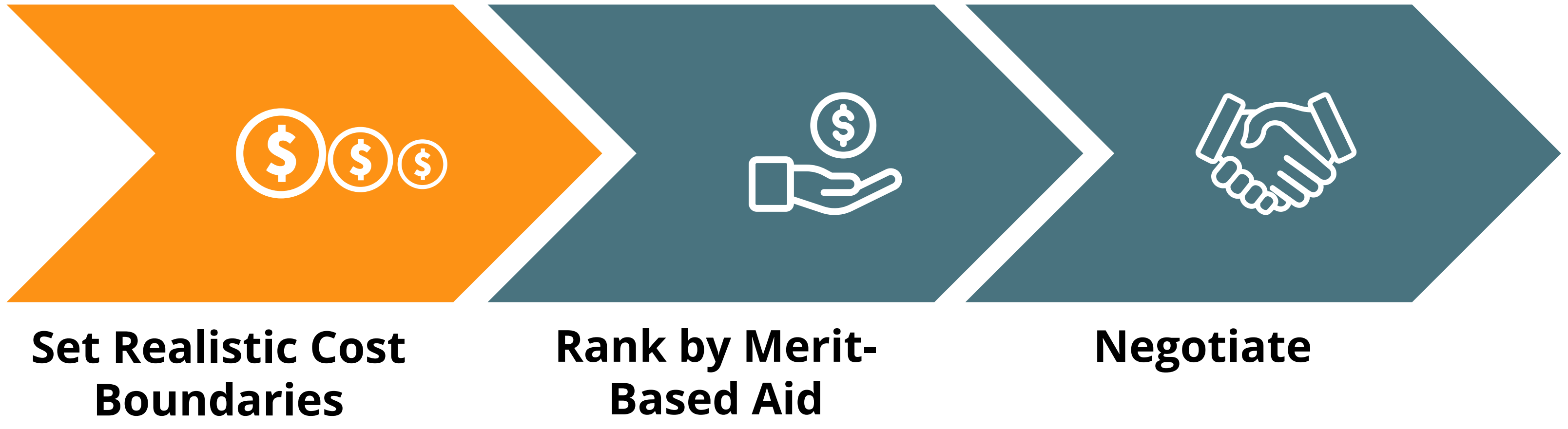
1 2 3

Set Realistic Cost Boundaries

Rank by Merit-Based Aid

Negotiate

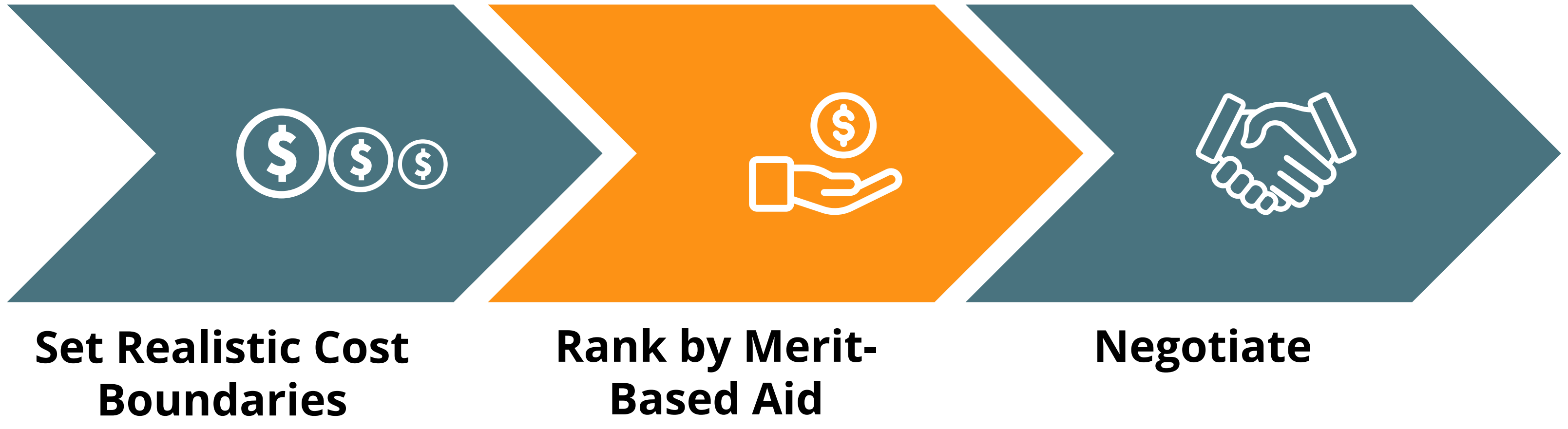
Set Realistic Cost Boundaries



Set an upper bound of what you can afford, and include all costs, not just tuition.

Rule of thumb: Unless a costly college also offers generous aid, it doesn't make the list.

Rank by Merit-Based Aid



State schools top the list here, and you aren’t limited to your own state. Many universities participate in regional programs that cap out-of- state tuition.

Academic or sports record are key, but also consider whether your child’s talents will appeal to certain schools. For instance, a daughter in a STEM program may have a competitive advantage.

Negotiate

Set Realistic Cost Boundaries | **Rank by Merit-Based Aid** | **Negotiate**

Build a short list of schools where your child has a good chance of a solid award, and that meet several of the student's other criteria. It's a balance, and you want to be sure they'll be happy.

Apply → **Compare awards** → **Negotiate**

Compare awards, and then reach out to your best options and negotiate. Don't take the first number, even if you know the school is your child's first choice.

02

Scholarships, Grants and Awards

There are many online-based services that can help you sort through all the college options.

Two good places to start are:

- **College Scorecard, run by the United States Department of Education, and**
- **Big Future, created by the College Board**

There are also search engines that can help you find scholarships.

Leverage Your Local Community

High School Guidance Office	**Ask for the previous year's award list**
Business organizations	**Chamber of Commerce, Rotary, etc.**
Places of worship	**Secular scholarships are often available to community members**

03

The FAFSA Is Key

Don't make the mistake of thinking this doesn't apply to your family. Many colleges and universities require it for consideration for merit-based scholarships or grants.

The FAFSA is also required for federal student loans, and depending on your child's career plans, these loans may be forgivable. Eligible careers are employment at federal, state, local or tribal governments or non-profits.

Public Service Loan Forgiveness Program

Careers in which the employer is a U.S. federal, state, local, or tribal government or not-for-profit organization, may qualify for the Public Service Loan Forgiveness Program (PSLF).

To qualify for PSLF, you must:

- Be employed by a U.S. federal, state, local, or tribal government or not-for-profit organization (federal service includes U.S. military service);
- Work full-time for that agency or organization;
- Have Direct Loans (or consolidate other federal student loans into a Direct Loan);
- Repay your loans under an income-driven repayment plan; and
- Make 120 qualifying payments

04

Tax Credits and Retirement Savings May Go Hand in Hand

The American Opportunity Tax Credit (AOTC) is a tax credit of up to $2,500 per child, per year.

The income limit for the full credit is $160,000 for a married couple filing jointly. If you make over $160,000 but less than $180,000, the amount of the AOTC may be lower.

It's based on your MAGI, so maxing out 401(k) contributions may help you lower taxable income to a level that can qualify.

05

529 Plans Are Valuable Even If College Is Imminent

Many states offer tax benefits that essentially amount to a discount on tuition. You can contribute, get the tax benefit and withdraw in the same year.

You can contribute $17,000 per year and stay under the gift tax exemption, and you can contribute up to five years' worth of exemptions at once.

When you're close to the time you'll need the money, you want to be thoughtful about the equity allocation and not take on too much risk.

06

Cash Flow Planning

College spending can be lumpy – but planning for it shouldn't be. Incorporating it into your cash flow plan can shift spending to save money.

1. **Quantify the total costs over four years after allaid/scholarships are determined.**
2. **Add up contributions from all sources – savings, family, student loans, student work, etc. Be sure to include the amount you spend on the child when they live at home for food, clothes, gas, etc.**
3. **Subtract to figure out the total amount you'll have to pay andthen divide by the number of months.**

Breaking it down into a monthly number can help you keep a handle on the amount and be useful in prompting you to identify budgeting sources to stack against it.

06

Cash Flow Planning

PRO TIP: Many colleges offer payment plans with 0% interest. Instead of paying tuition all at once, you make a monthly payment. Over the course of four years, this can lower costs and make it easier to pay.

07

Utilizing Deferred Compensation

If you have a deferred compensation plan as part of your executive compensation, you may be able to divert some of those funds to pay for education costs now, without paying taxes on them.

You'll need to talk to your company about how that will be structured, and it should be thought through carefully in the context of your entire financial plan.

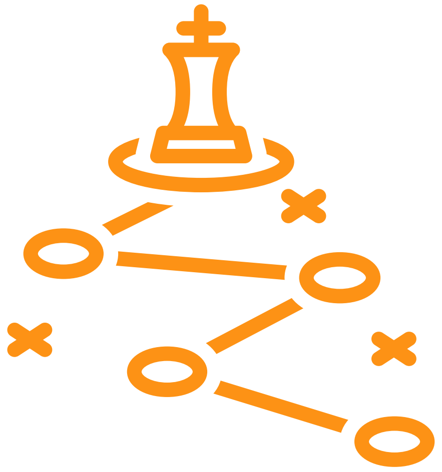
08

Gifting Appreciated Stock

If you have appreciated stock, it may make sense to gift the asset to your child and have them sell it.

- Married couples can gift up to $34,000 worth of assets annually and stay under the gift tax exemption.
- The student must be at least 18 years old at the time of the sale to qualify for the capital gains rate based on their income.
- The long-term capital gains rate is 0% for those with taxable income of $44,625 or less in 2023 for singles and $89,250 for married filing jointly.

Getting a Strategy in Place



Creating a plan to pay for college that maximizes all potential sources is a project – but it can pay off handsomely. And the benefits created by keeping loans to a minimum and ensuring retirement savings stay on track are lifelong for both student and parents. We're happy to have a conversation with you and help you achieve your college funding goals.

DISCLAIMER

The information contained herein is intended to be used for educational purposes only and is not exhaustive. Diversification and/or any strategy that may be discussed does not guarantee against investment losses but are intended to help manage risk and return. If applicable, historical discussions and/or opinions are not predictive of future events. The content is presented in good faith and has been drawn from sources believed to be reliable. The content is not intended to be legal, tax or financial advice. Please consult a legal, tax or financial professional for information specific to your individual situation.