



PLANNING TODAY ► SECURING TOMORROW

FINANCIAL ASSET MANAGEMENT CORP.

# Paying for Your Child's Education

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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' modified adjusted gross income-
  - Married Filing Joint \$190,000- \$220,000.
  - Single \$95,000-\$110,000
- 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
- Considered 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.
  - 2023 Limits - Max is \$6,500/\$7,500 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- Contributions can be withdrawn tax free and penalty free for college expenses at any time.
- Earnings withdrawn before 59 ½ are penalty free if used for college expenses.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- After 5 years, earnings can be withdrawn tax free and penalty free for college.
- 2022 Funding Limitations based on earned income (Modified Adjusted Gross Income)
  - Married Filing Joint \$218,00-\$228,000- Below \$218,000, full amount allowed. Above \$228,000, no contribution allowed
  - Single \$138,000-\$153,000- Below \$138,000, full amount allowed. Above \$153,000, 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. (\$16,000 per person per year for 2022)
- 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 \$2,500 is taxed at the parent's 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 \$17,000 annual gift tax exclusion (\$34,000 for married couples) per child. Can fund five years at once (\$85,000 single/\$170,000 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 Grandparent is owner, only income when distributed is reported on the FAFSA
- 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
- Beneficiaries are permitted to roll over up to \$35,000 into a Roth IRA. Subject to Roth IRA annual contribution limits and 529 Plan must have been open more than 15 years.

# New York 529 Direct Plan



- Managed by Vanguard/ Upromise
- New contributions can be invested within 20 Target Enrollment Portfolios and 14 individual options. You may choose up to five investment options per account
- Two changes 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.org](http://www.nysaves.org)

# 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](http://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 federal adjusted gross income under \$125,000. This would cover tuition only.*

# College Loans (Rates for 2023-2024 Academic year)

	Federal Stafford Subsidized Loans		Additional Unsubsidized Loans	Federal Parent PLUS Loans	Private Student Loans
Borrower	Student		Student	Parent	Student (with parent co-signer)
Interest Rate	5.5%		5.5%	8.055	Varies by loan product and credit score
Loan Fees	1.057%		1.057%	4.2%	Varies by loan product
Credit Check	No		No	Yes (no adverse credit)	Yes (credit requirement set by lender)
Cosigner Required	No		No	No	Varies by lender but usually yes
Annual Loan Limit	0-23 Credits (Freshmen)	\$3,500	\$2,000	Cost of Attendance less other financial aid	Cost of Attendance less other financial aid
	24-53 credits (Sophomores)	\$4,500	\$2,000		
	54+ credits (Juniors/Seniors)	\$5,500	\$2,000		
Aggregate Loan Limit	\$23,000		\$31,000 (of which no more than \$23,000 can be subsidized)	None	Varies by loan product
Repayment Begins	6 months after graduation (or drop to less than half-time enrollment)		6 months after graduation (or drop to less than half-time enrollment)	60 days after final disbursement or parent can contact lender for deferment until student graduates	Varies by loan product
Repayment Terms	10-25 yrs based on balance owed		10-25 yrs based on balance owed	10-25 yrs based on balance owed	Varies by loan product
Eligible for Federal Loan Deferments or Forbearances	Yes		Yes	Yes	No
Eligible for Federal Consolidation	Yes		Yes	Yes	No
Interest Pmts Eligible for Federal Tax Deduction	Yes		Yes	Yes	No
Eligible for Federal Unsubsidized Forfeiture	Yes		Yes	Yes	No



**SCOTT M. KAHAN, CFP®**

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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. 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 2022, Scott was awarded the P. Kemp Fain Lifetime Achievement Award by the FPA for his dedication to the financial planning profession.

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.