Big changes for college investors

What's happening, what it means and what to do

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Lingering aftereffects of the pandemic, challenging economic conditions and a changing financial aid landscape point toward higher college costs for families and a greater need to invest.

Student loan forgiveness is not a reason to stop investing

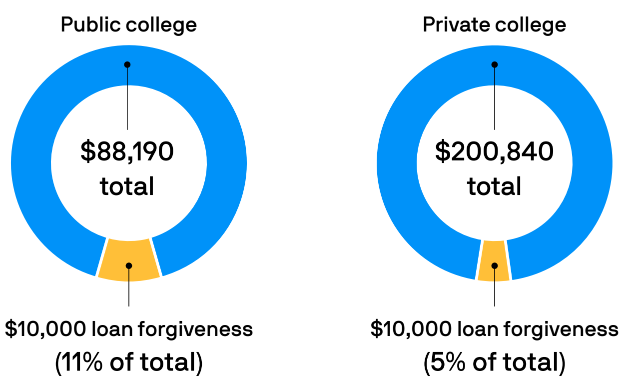
In late August, President Biden announced one-time student loan forgiveness of up to $10,000 per borrower, or $20,000 for lower-income students receiving at least one Pell Grant during college.

While the news brought some relief to current loan holders, it doesn't benefit families with pre-college children or change their need to invest. That's because ***debt forgiveness applies only to federal student loans held by the U.S. Department of Education with outstanding balances as of June 30, 2022.*** It doesn't apply to future loans.

To factor loan forgiveness into your college plan, you would have to assume the current policy survives legal challenges and a future president takes similar action. Even if both happen, loan forgiveness is unlikely to be a substitute for investing. Consider this:

Loan forgiveness covers only a fraction of total college costs. For example, $10,000 in canceled debt wouldn't currently pay for even one semester at a public college.[1] To meet the remaining expenses, it would be cheaper for families to invest than borrow.

Total four-year college costs, class of 2022[3]



Higher earners don't qualify. Loan forgiveness isn't available to individuals with income above $125,000 or married couples earning more than $250,000 in 2021 or 2020. These same higher earners rarely qualify for free need-based financial aid and/or grants, leaving investments as a primary source of college funding.

Postponing or stopping investments in hopes of loan forgiveness could be costly. It gives your investments less time to grow, which may result in smaller college funds and higher out-of-pocket costs – especially if tuition prices continue rising (see next page).

Any future loans not forgiven may charge higher interest rates. As the Federal Reserve raises interest rates to fight inflation, college borrowing costs are rising too. In the past year alone, rates on federal undergraduate loans jumped from 3.73% to 4.99%. Rates on graduate student and parent loans also increased, from 6.28% to 7.54%.[2]

Lastly, taxes might be another consideration. Although student loan forgiveness will be tax free at the federal level, some states may treat the canceled amount as taxable income. Consult a tax professional about your individual situation.

Next steps for parents and other adults paying off college loans of their own

- **Apply for loan forgiveness** if you qualify. An online application is available at studentaid.gov and must be submitted by December 31, 2023.
- **Prepare to restart payments on uncanceled loans in January 2023**, when the current COVID-era payment freeze is set to expire. If some of your debt is forgiven, your loan servicer will provide your new monthly payment amount.
- **Consider investing any savings from loan forgiveness** toward a loved one's college education.

College costs are rising again... and it's likely to continue

After a two-year pause during COVID, college prices may start rising rapidly again. Here's why:

Inflation. Colleges are passing along higher food, energy and payroll costs to students through increases in not only tuition, but also room/board and meal plans.

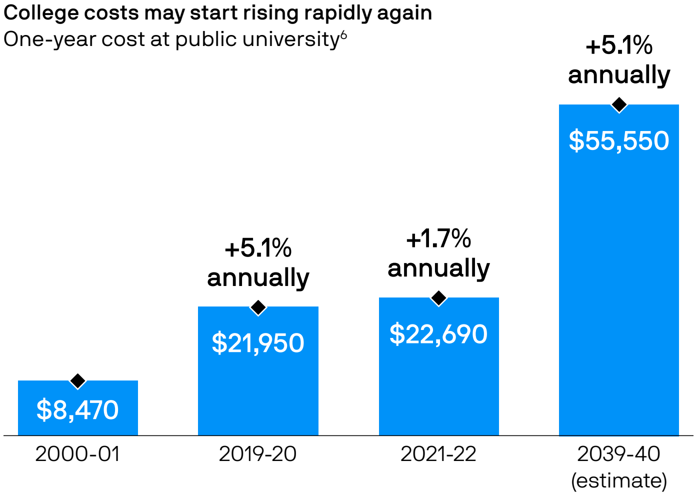
Budget shortfalls. Colleges lost an estimated $183 billion during the pandemic due to declining revenue and increased expenses.[4] Federal emergency spending under the CARES Act, American Rescue Plan and other COVID-related measures provided some temporary relief. However, colleges with budget gaps may need to raise prices as those pandemic funds dry up.

Slowing economy. College costs typically spike during and for years after recessions. Why? State funding for public institutions declines and demand for college rises among people seeking to further their education when jobs are scarce.

Changing demographics. As the population of college-age Americans continues to shrink, schools are spending more to recruit students and enhance campus experiences.

High demand for expensive colleges. The latest admissions cycle saw nearly 60% of all applications going to private colleges and 44% to "highly selective" colleges, both of which tend to cost more.[5]

College costs may start rising rapidly again
One-year cost at public university[6]



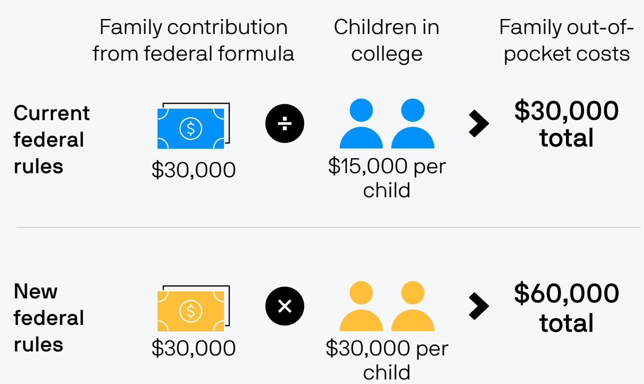
New rules will reduce financial aid for many families

Federal financial aid eligibility is based on the difference between what college costs and what the government expects you to pay. Under current rules, your share is ***divided by all students*** in your family enrolled at the same time. Under new rules taking effect July 1, 2023, your share will be ***multiplied by each student***, essentially doubling or tripling your out-of-pocket costs if two or three children attend at once.[7]

Example: The Smiths have two kids in college and a family contribution of $30,000 based on their federal aid application. They would pay $15,000 per student today, but $30,000 per student next year. This change will mostly affect higher-earning families, especially if:

- They have multiple kids within four years of each other.
- Students take gap years or more than four years to graduate, increasing the chances of college overlapping.

The Smith's out-of-pocket college costs[8]



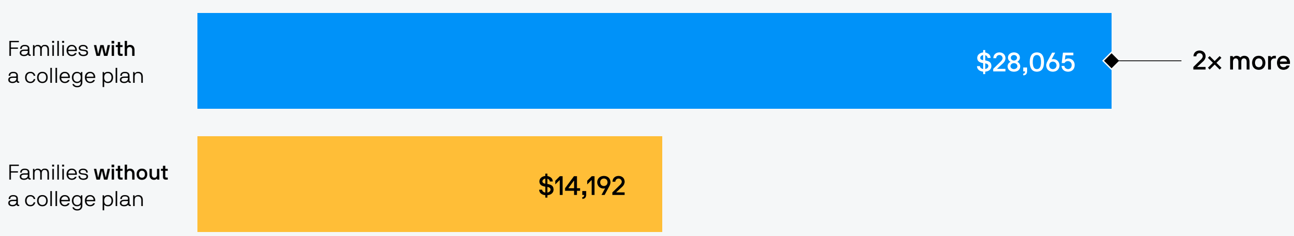
Good news for grandparents and others

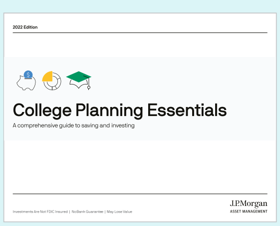
Withdrawals made in 2022 and beyond from 529 college savings plans owned by grandparents, aunts, uncles and other non-parents will have no impact on federal financial aid under new rules. This allows family and friends to invest for college without negatively affecting loved ones, while also receiving special gift and estate tax benefits only available in 529 plans.

Action plan for year-end 2022 and beyond

- **Stick to your college plan and investment schedule;** don't get derailed by one-time student loan forgiveness or short-term market moves.
- **Contribute to 529 plans by December 31** to max out 2022 state income tax deductions, if applicable, as well as your annual exclusion from federal gift taxes.
- **Invest any year-end bonuses** and next spring's tax refund to build college funds without disrupting your normal budget.
- **Get grandparents and others involved** to take advantage of new rules excluding their 529 accounts from the federal financial aid formula.
- **Put current market volatility to work for you** by investing when prices are temporarily down and participating in any recoveries.
- **Set up automatic monthly 529 plan contributions** to steadily build accounts and remove the emotion from investing.

Meet with a financial professional to create or review your college plan
Studies show that families with a plan save twice as much for college as those without a plan.[9]





Want more college planning insights?

Explore College Planning Essentials, our all-in-one guide to tuition costs, financial aid, investing strategies, 529 plans and more.

[1] The College Board, *Trends in College Pricing*, 2021. Based on average tuition, fees, and room and board at an in-state, four-year public university.
[2] U.S. Department of Education, for loans dispersed between July 1, 2021–June 30, 2022, versus July 1, 2022–June 30, 2023.
[3] The College Board, *Trends in College Pricing*, 2018-2021. Average tuition, fees, and room and board for public college reflect four-year, in-state charges.
[4] *The Chronicle of Higher Education*, February 2021.
[5] Common App, March 2022.
[6] The College Board, *Trends in College Pricing*, 2000, 2019 and 2021. Based on average tuition, fees, and room and board at an in-state, four-year public university.
[7] Congressional Research Service, *The FAFSA Simplification Act*, August 4, 2022, page 7.
[8] For illustrative purposes only. This example reflects only the federal financial aid rule change regarding multiple children in college at the same time. Other rule changes may result in more or less federal aid, depending on a family's circumstances.
[9] Sallie Mae, *Higher Ambitions: How America Plans for Post-secondary Education*, 2020.

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Visit www.ny529advisor.com
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