

# Advanced Education Planning

*From 529 Plans to Student  
Loan Forgiveness*



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Investments & Wealth Institute | visiWealth | AICCF

# WHAT'S ON THE AGENDA FOR TODAY?

Education Funding | Saving for College

1

Financial Aid Planning | Paying for College

2

Student Loan Advising | Re-Paying College

3

Trends and Changing the Conversation

4

# **Education Funding I**

## **Saving for College**



# OPERATIONAL FLEXIBILITY

Contributions | Distributions | Changing Beneficiaries

**CASH CONTRIBUTIONS**    **SAVINGS PLAN VS PREPAID PLAN**    **IN-STATE VS OUT-OF-STATE PLAN**    **DIRECT-SOLD VS ADVISOR-SOLD**

**ONE ACCOUNT OWNER**    **SUCCESSOR OWNER**    **ONE BENEFICIARY**    **BENEFICIARY CHANGE FLEXIBILITY**

To Whom Can Distributions Be Made?

- ACCOUNT OWNER
- BENEFICIARY
- QUALIFIED INSTITUTION

CUSTODIAL 529 PLAN LIMITATIONS | DEPLETION RISK IN DIVORCE CASES

# TAX EFFICIENCY

Favorable Tax Treatment | Deferral Opportunities

**STATE INCOME TAX DEDUCTIONS | CREDITS**    **TAX-DEFERRED GROWTH**    **TAX-FREE DISTRIBUTIONS**

What Are Considered Qualifying Expenses?

- K-12 TUITION
- UNDERGRADUATE | GRADUATE EXPENSES
- APPRENTICESHIPS
- STUDENT LOANS
- ROTH IRA ROLLOVERS

INCOME TAX RECAPTURE EXPOSURE | TAX BENEFITS VS INVESTMENT RETURNS

# INVESTMENT FLEXIBILITY

Funding Limits | Investment Options

**HIGH FUNDING LIMITS**    **TWO INVESTMENT CHANGES PER YEAR**    **MULTIPLE INVESTMENT OPTIONS**

What Investment Options are Available?

**INDIVIDUAL FUNDS**    **STATIC PORTFOLIOS**    **AGE-BASED | TARGET ENROLLMENT PORTFOLIOS**

DIFFERING AGE BANDS AND EQUITY ALLOCATIONS | MULTIPLE EDUCATION GOALS

# FINANCIAL AID EFFICIENCY

Asset Assessment Rates | Income Assessment Rates

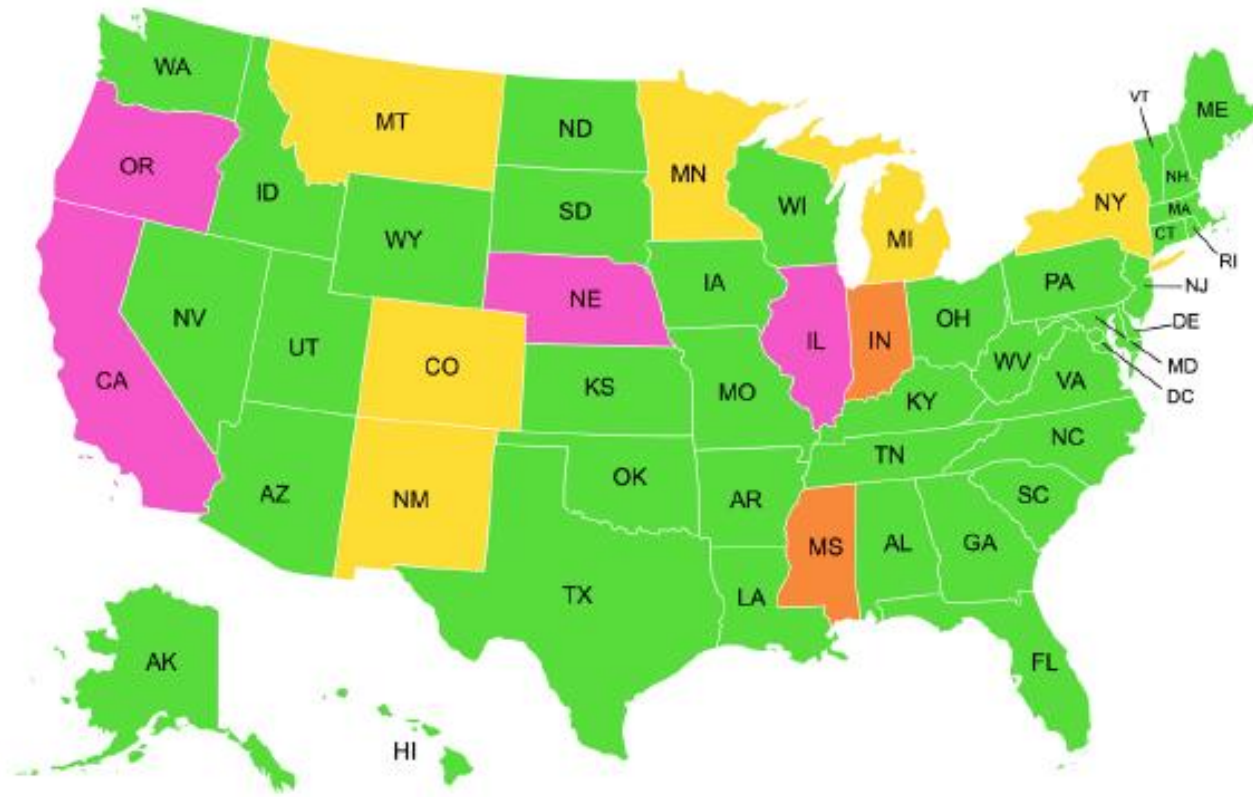
How Do 529 College Savings Plans Impact Financial Aid Eligibility?

	UTMA Account STUDENT	529 Plan STUDENT	529 Plan PARENT	529 Plan GRANDPARENT
ACCOUNT VALUE ASSESSED (ASSET)	YES	YES	YES	NO
ASSET ASSESSMENT RATE (FAFSA)	20%	5.64%	5.64%	0%
DISTRIBUTIONS ASSESSED (INCOME)	NO	NO	NO	NO

SIBLING-OWNED 529 PLANS | PRIVATE SCHOOL FINANCIAL AID IMPACT



QUALIFYING EXPENSES BY STATE



**UNDERGRADUATE | GRADUATE**  
*Tax-Free to the Extent of Qualifying Expenses*

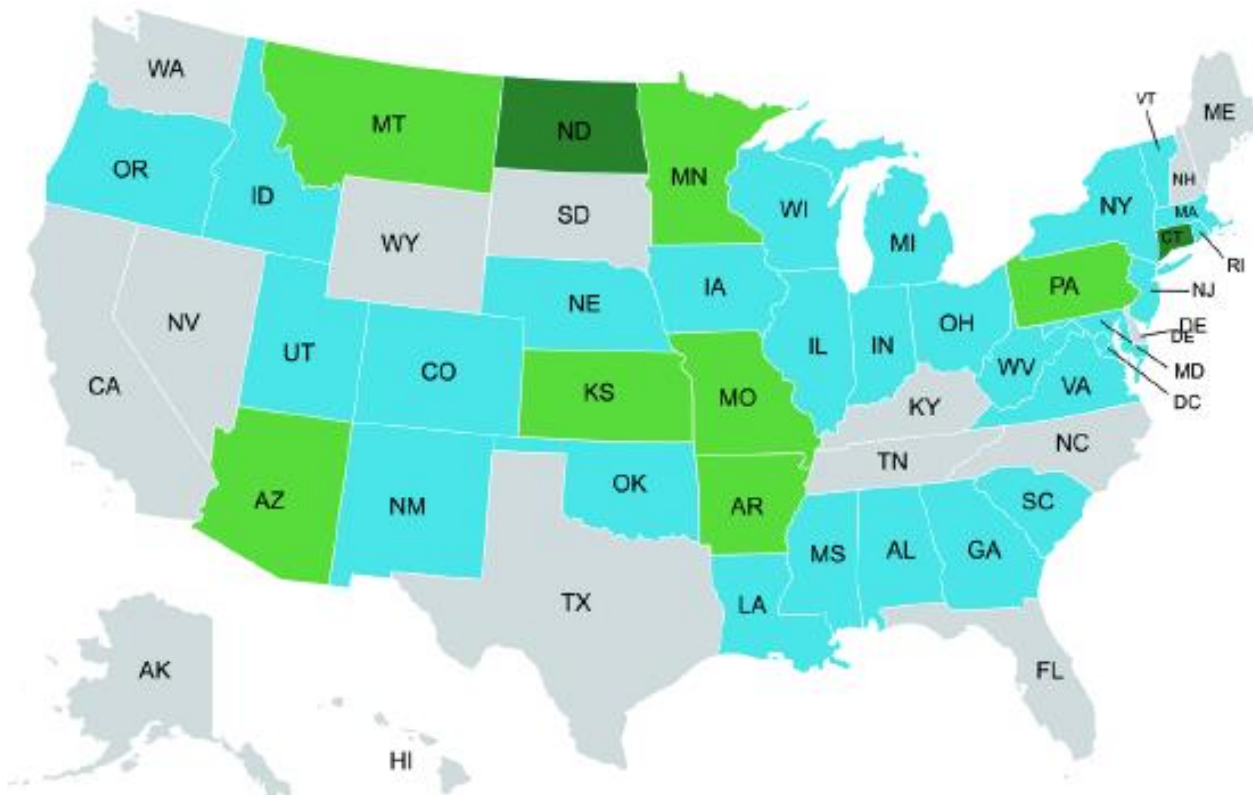


**K-12 TUITION**  
*\$10,000 Per Year Per Beneficiary Tax-Free*



**STUDENT LOANS**  
*\$10,000 Lifetime Limit Per Beneficiary and Per Sibling Tax-Free*

STATE INCOME TAX BENEFITS



**STATE TAX DEDUCTION | CREDIT**  
*Available for Residents Who Enroll in Their Home State Plan*

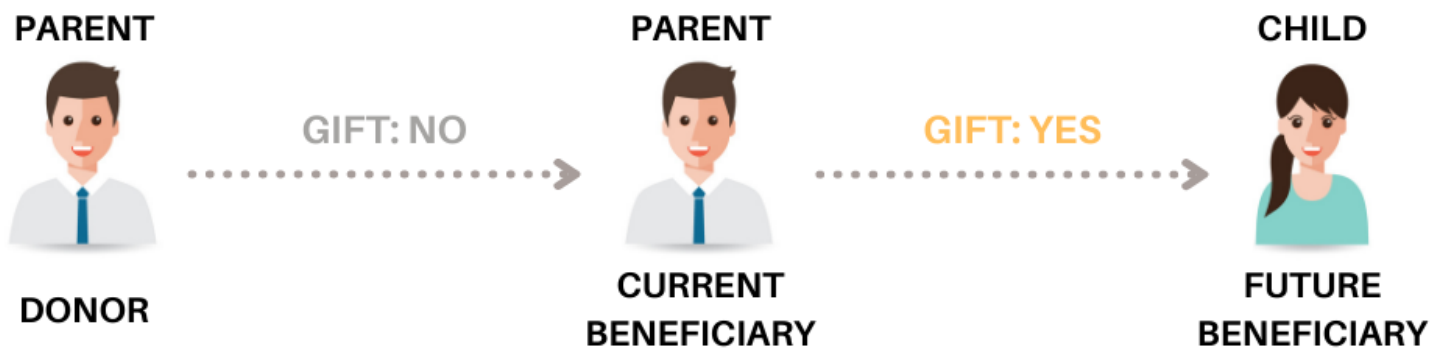


**NO STATE INCOME TAX RECAPTURE**  
*Previous Deductions are Not Added Back to Taxable Income*

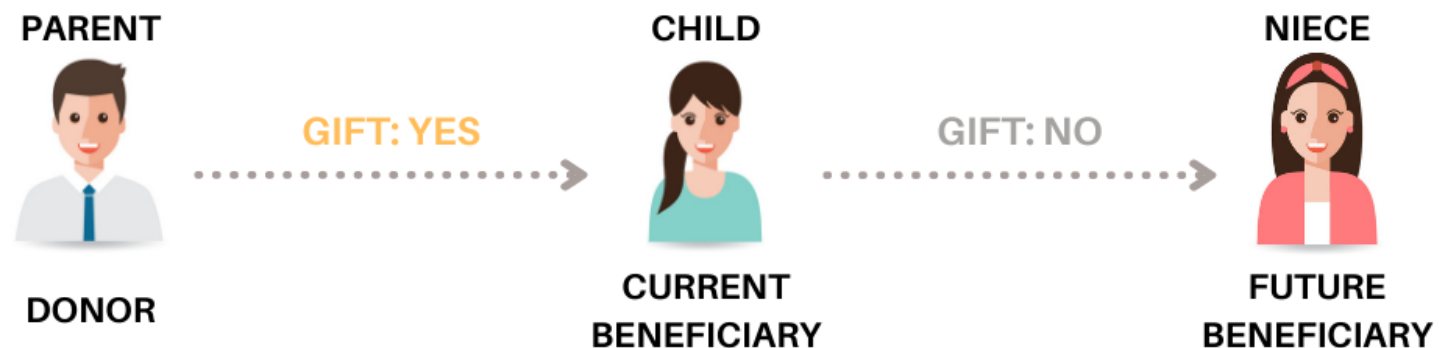


**STATE TAX PARITY**  
*Eligible for State Income Tax Deduction Regardless of Plan Selected*

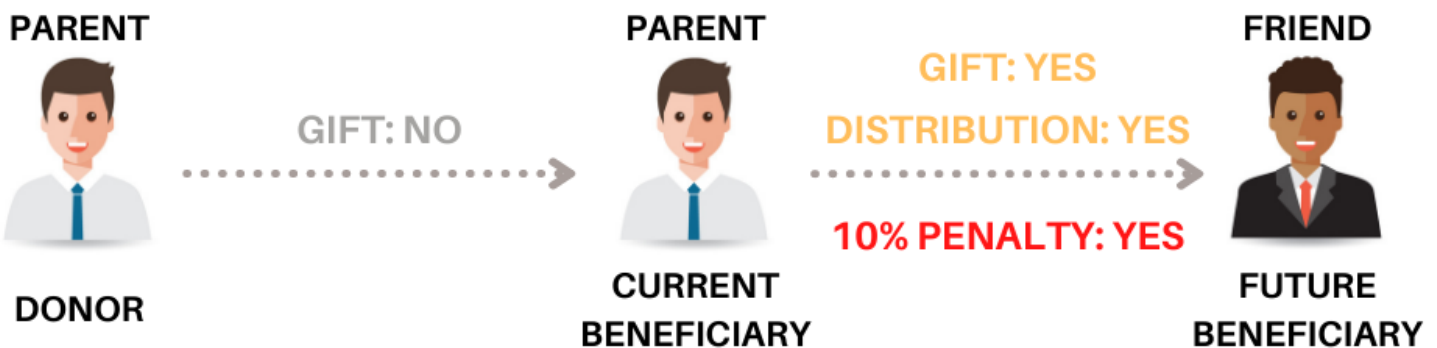
### SETTING UP THE ACCOUNT BEFORE CHILD IS BORN



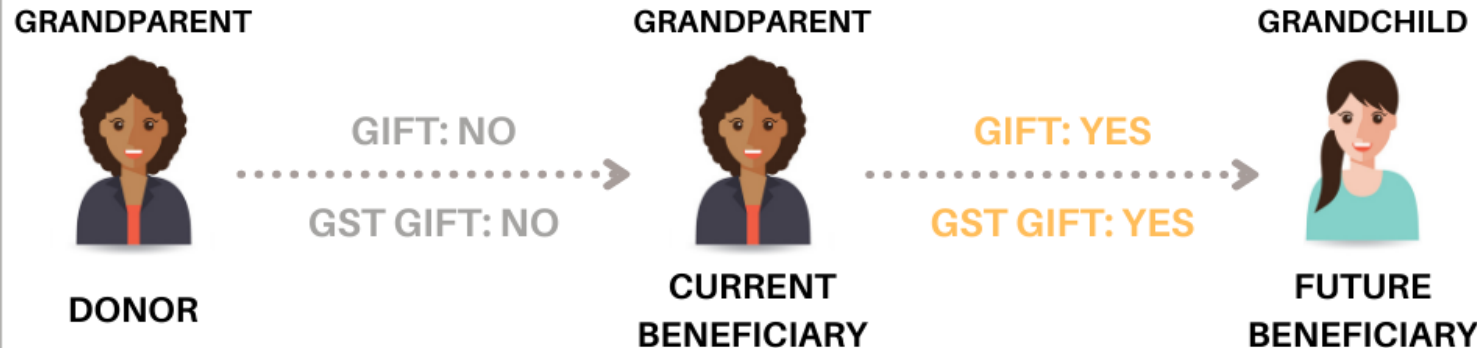
### CHANGING BENEFICIARY TO ANOTHER FAMILY MEMBER



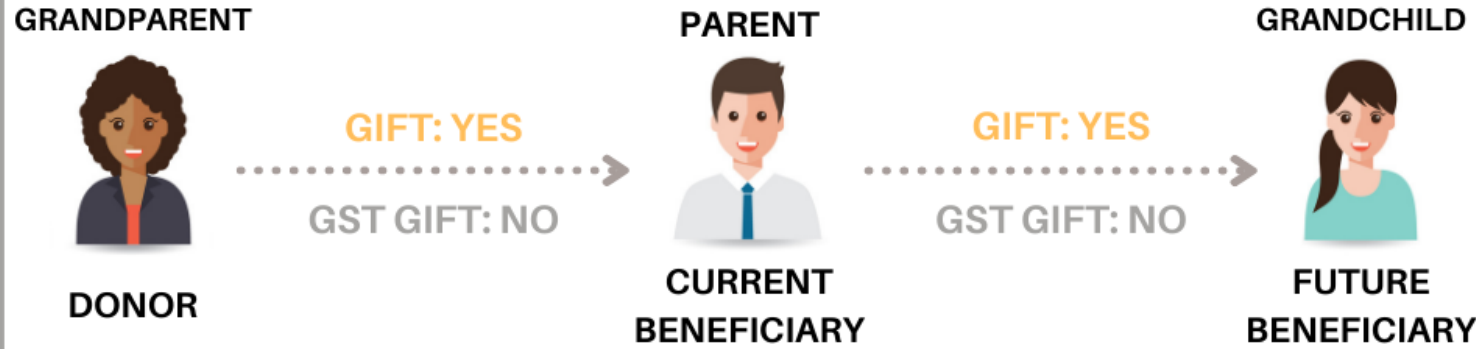
### CHANGING BENEFICIARY TO A NON-FAMILY MEMBER



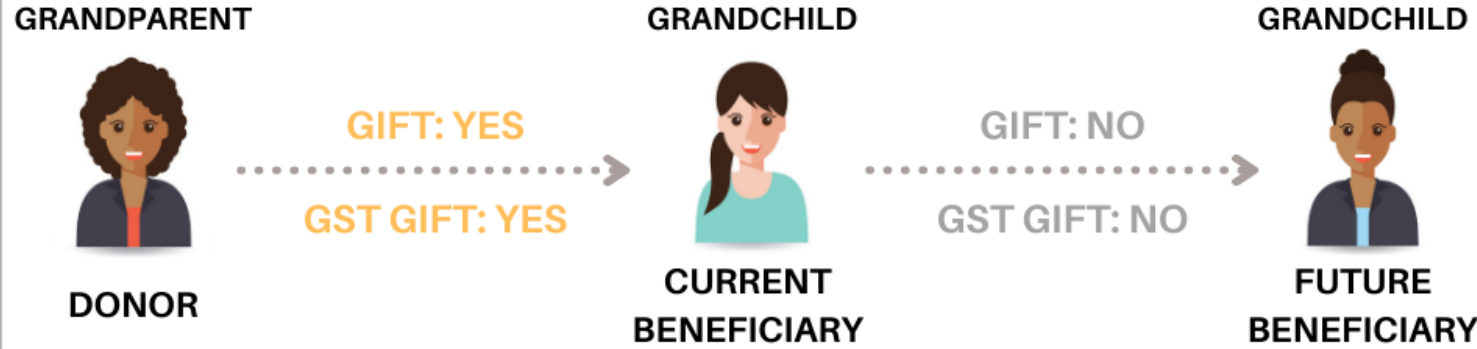
### SETTING UP THE ACCOUNT BEFORE GRANDCHILD IS BORN



### CHANGING BENEFICIARY FROM ONE GENERATION TO ANOTHER



### CHANGING BENEFICIARY WITHIN SAME GENERATION





## 529 PLANS

Rolling excess funds into Roth IRA accounts

	2024 +
CUMULATIVE LIMIT	\$35,000
ANNUAL CONTRIBUTION LIMIT	\$6,500   \$7,500
EARNED INCOME REQUIRED	YES
ROTH IRA OWNER	BENEFICIARY
SEASONING RULES	5 YEARS   15 YEARS



## CATCH-UP CONTRIBUTIONS

Additional retirement contributions may be made to pre-tax or Roth accounts

	Prior-Year Wages			
	ANY INCOME	ANY INCOME	≤ \$145K	> \$145K
AGES 50-59	\$7,500	\$7,500	\$7,500	\$7,500
AGES 60-63	\$7,500	\$11,250	\$11,250	\$11,250
AGES 64 +	\$7,500	\$7,500	\$7,500	\$7,500
	2024	2025	2026 +	2026 +
	PRE-TAX OR ROTH ACCOUNT		ROTH ACCOUNT ONLY	

Assumes Roth account option is offered for 401(k) and 403(b) plans | Assumes individual has sufficient wages | Ages 60-63 catch-up limit is > \$10,000 (adjusted for inflation) or 150% of standard catch-up contribution amount



## SEP | SIMPLE IRAs

Small business owners will be able to utilize Roth accounts

	PRE-2023	2023 +
PRE-TAX ACCOUNTS	YES	YES
ROTH ACCOUNTS	NO	YES



## DISTRIBUTIONS (RMDs)

Distributions must be taken upon reaching certain age

	PRE-2024	2024 +
ROTH IRA	NO	NO
ROTH 401(K)	YES	NO
ROTH 403(B)	YES	NO



## EMPLOYER MATCHES

Employer contributions can be allocated to Roth accounts

	PRE-2023	2023 +
PRE-TAX ACCOUNTS	YES	YES
ROTH ACCOUNTS	NO	YES



# **Financial Aid Planning I**

## **Paying for College**

# CONSOLIDATED APPROPRIATIONS ACT - FAFSA SIMPLIFICATION ACT

2024-2025 Academic Year

In effect right now and uses 2022 as base income assessment year!

1

Changes for divorced parents - Custodial parent definition

2

Changes for grandparents - 529 Plan distributions are no longer counted as untaxed income

3

Changes for business owners - No more exclusion for value of family-owned businesses

4

Changes for families with multiple children enrolled simultaneously - No EFC/SAI reduction!

5



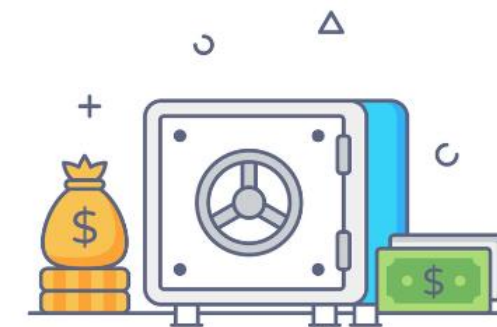
Financial Aid Forms Available

**DECEMBER 1ST**



Income Assessment

**PRIOR-PRIOR YEAR**

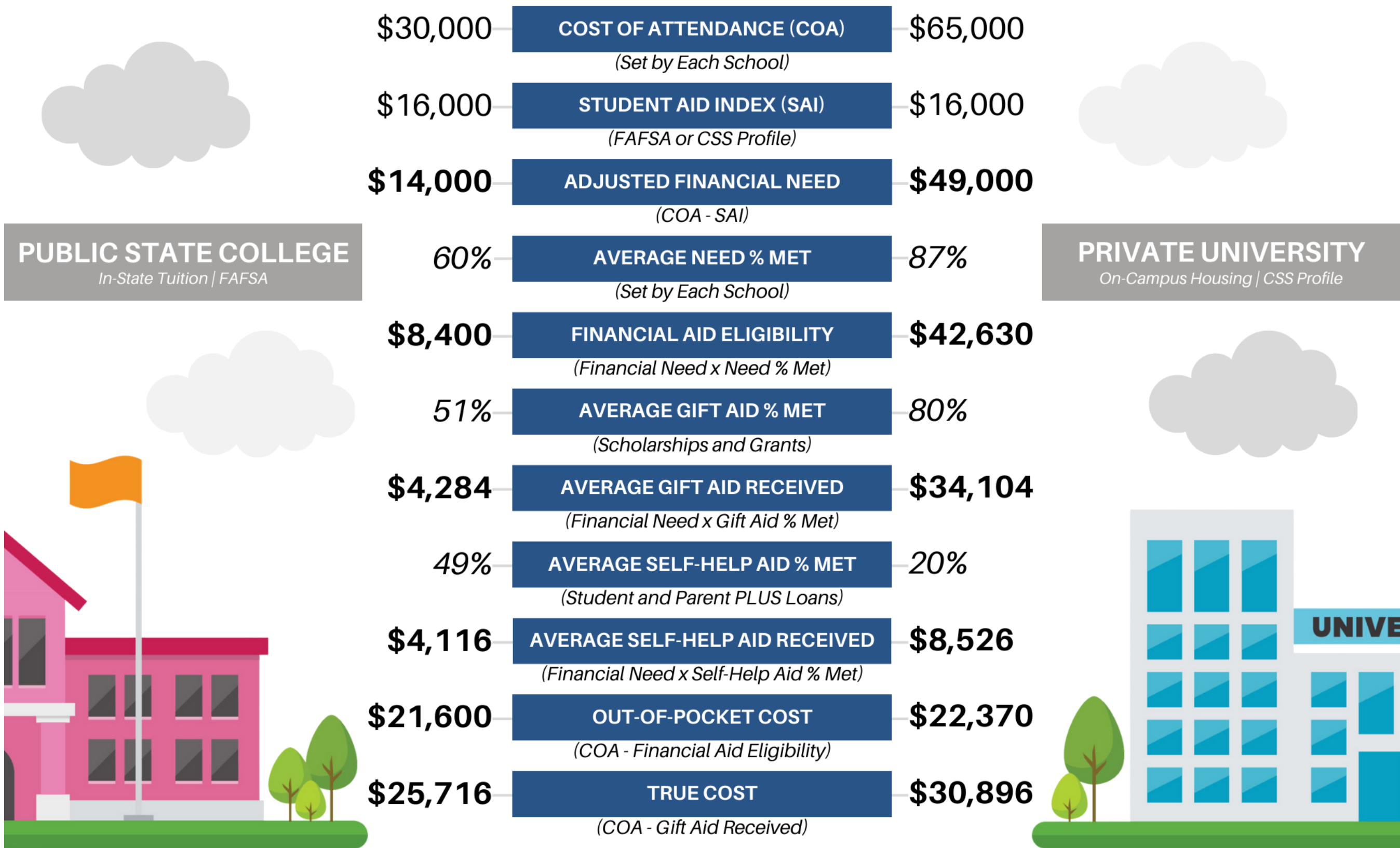


Asset Assessment

**DATE OF FILING**

TAX YEAR	2024		2025		2026		2027		2028	
SEMESTER	FALL	SPRING	FALL	SPRING	FALL	SPRING	FALL	SPRING	FALL	SPRING
ACADEMIC YEAR	FRESHMAN		SOPHOMORE		JUNIOR		SENIOR			
INCOME	2022	2023	2024	2025						
ASSETS	2023	2024	2025	2026						







INHERITED IRA  
IN 2021



ENROLLED IN  
COLLEGE

DISTRIBUTION TIMELINE

2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
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INCOME ASSESSMENT

NO IMPACT	✓	✓	✓	✓	NO IMPACT				
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ASSET ASSESSMENT

?	?	?	✓	✓	✓	✓	NO IMPACT		
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**DISTRIBUTIONS ARE...**

**APPLIES TO...**

	PRE-TAX IRA	ROTH IRA
INCLUDED IN TAXABLE INCOME	YES	NO
ASSESSABLE IN FINANCIAL AID FORMULA	YES	YES



Non-Eligible Designated Beneficiaries  
Conduit Trusts



## PRO RATA DISTRIBUTIONS

*Part Earnings | Part Principal*

## Figuring Out What's Taxable

### NONQUALIFIED DISTRIBUTION




Total Distribution in Excess of Qualifying Expenses

### EARNINGS PERCENTAGE

$Earnings / (Earnings + Principal)$

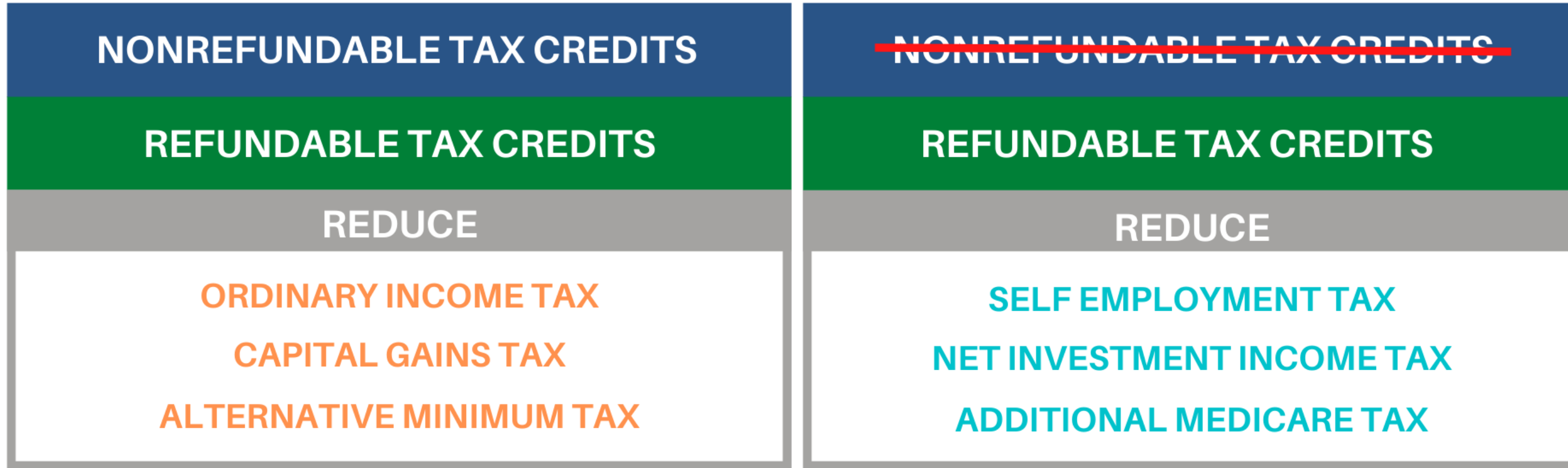
### TAXABLE AMOUNT

$Nonqualified\ Distribution \times Earnings\ Percentage$

	 <b>\$20,000   \$30,000</b> <i>Earnings   Principal</i> <i>529 Plan Balance</i>	 <b>\$20,000   \$30,000</b> <i>Earnings   Principal</i> <i>529 Plan Balance</i>	 <b>\$75,000   \$25,000</b> <i>Earnings   Principal</i> <i>529 Plan Balance</i>
QUALIFYING EXPENSES	\$40,000	\$40,000	\$40,000
TOTAL DISTRIBUTION	\$40,000	\$45,000	\$45,000
EARNINGS PERCENTAGE	40%	40%	75%
NONQUALIFIED DISTRIBUTION	\$0	\$5,000	\$5,000
TAXABLE AMOUNT	\$0	\$2,000	\$3,750

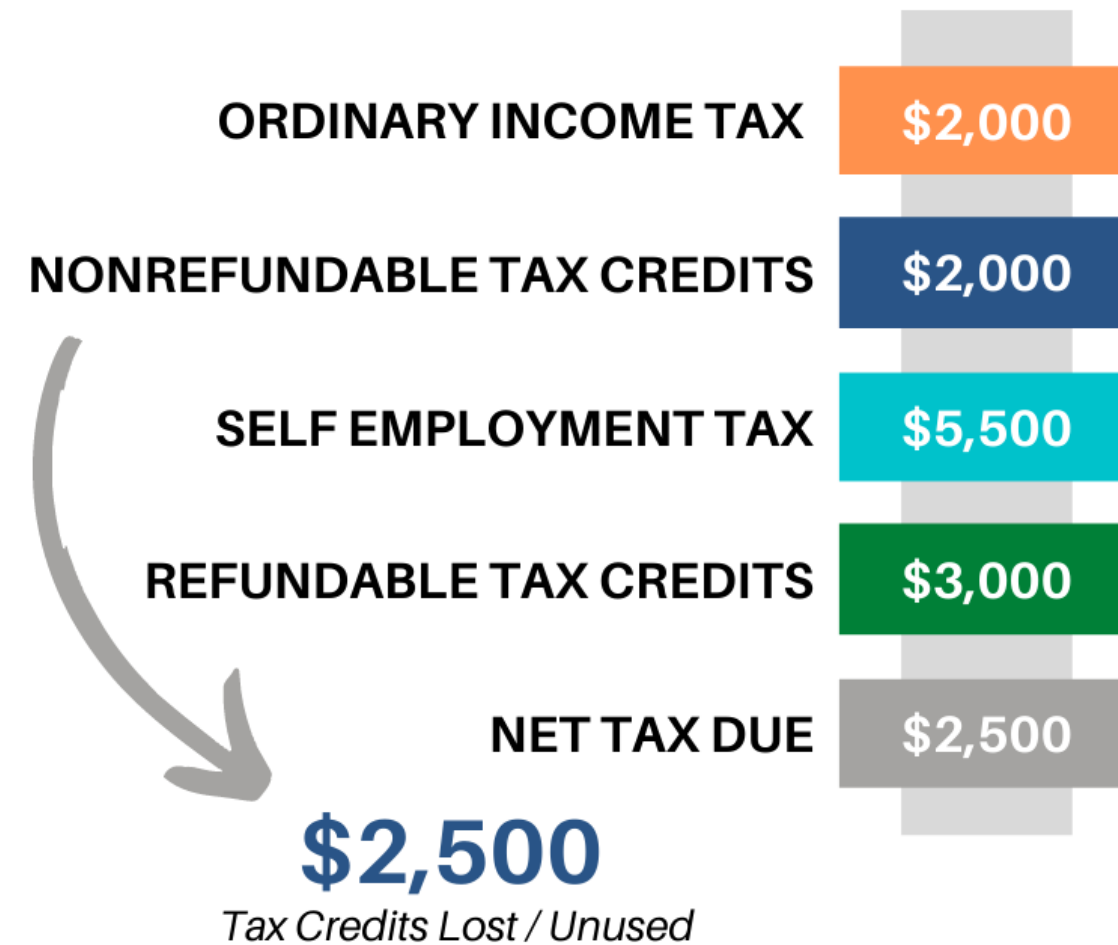


# TAX CREDITS REDUCE TAX LIABILITY ON A "DOLLAR FOR DOLLAR" BASIS



**\$2,500 x 3**  
*American Opportunity  
 Tax Credit*

<b>\$4,500</b> <i>Nonrefundable</i>	+	<b>\$3,000</b> <i>Refundable</i>	=	<b>\$7,500</b> <i>Total Tax Credits</i>
<b>\$2,000</b> <i>Ordinary Income Tax</i>	+	<b>\$5,500</b> <i>Self Employment Tax</i>	=	<b>\$7,500</b> <i>Total Tax Liability</i>



# OTHER PLANNING CONSIDERATIONS

For Affluent Clients



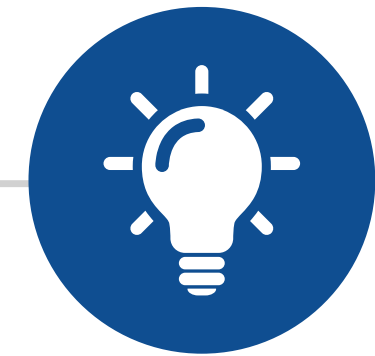
## *“Optimize Education Tax Credit Claiming”*

- Shift income-producing assets to children (or trust)
- Have dependent children claim American Opportunity Tax Credits
- Generate up to \$10,000 in federal tax savings over four years



## *“Consider Relocating”*

- Research requirements needed to qualify for in-state tuition
- Much more feasible due to increasing acceptance of remote work opportunities
- More feasible for older parents who may be closer to retirement age



## *“Get Creative!”*

- New financial aid changes penalize families with multiple children enrolled simultaneously
- Inquire about sibling discounts
- Negotiate for tuition discounts
- Evaluate pre-payment opportunities and 529 plan distribution coordination

# **Student Loan Advising** **| Re-Paying College**



# 2023-2024 FEDERAL STUDENT LOAN OPTIONS

Interest Rates and Borrowing Limits (Highest Rates In Over a Decade!)

1

Direct Stafford Loans

- Interest Rate: 5.50% (07/01/2023 – 06/30/2024) – 10-Year May Treasury Note + 2.05%
- Annual Borrowing Limits: \$5,500 (\$3,500 Subsidized); \$6,500 (\$4,500); \$7,500 (\$5,500)
- Maximum Allowed: \$31,000 (\$23,000 Subsidized)

2

Direct Stafford Loans  
(Independent)

- Interest Rate: 5.50% (07/01/2023 – 06/30/2024) – 10-Year May Treasury Note + 2.05%
- Annual Borrowing Limits: \$9,500 (\$3,500 Subsidized); \$10,500 (\$4,500); \$12,500 (\$5,500)
- Maximum Allowed: \$57,500 (\$23,000 Subsidized)

3

Grad/Professional  
Stafford Loans

- Interest Rate: 7.05% (07/01/2023 – 06/30/2024) – 10-Year May Treasury Note + 3.60%
- Annual Borrowing Limits: \$20,500 Unsubsidized
- Maximum Allowed: \$138,500

4

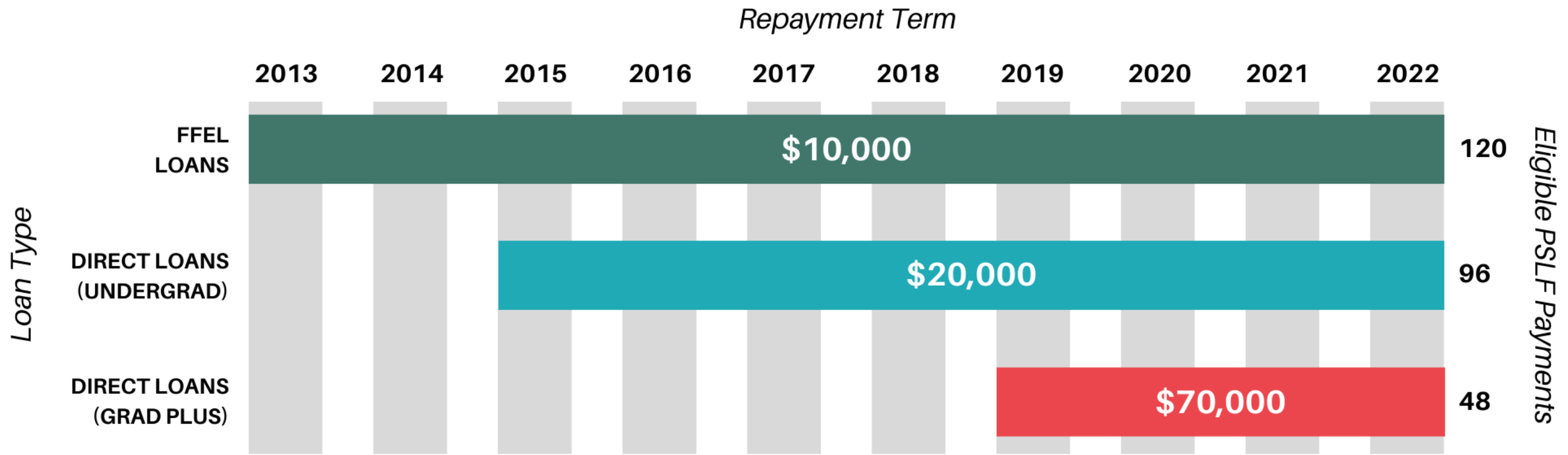
Grad/Parent  
PLUS Loans

- Interest Rate: 8.05% (07/01/2023 – 06/30/2024) – 10-Year May Treasury Note + 4.60%
- Origination Fees: 4.228% (10/01/2023 – 09/30/2024)
- Annual Borrowing Limits: COA – Financial Assistance Received
- Maximum Allowed: The limit does not exist!

# PARENT PLUS LOAN INSIGHTS

Unfortunately, There Are Minuses!

- 1 Low barriers to borrow – only adverse credit history factored in, not credit score!
- 2 Secured debt with unsecured rates – tax refund offsets, wage/social security garnishment!
- 3 Lack of transparency with regards to total loan costs – no APR for private loan comparison!
- 4 Limited repayment plan options – ICR after consolidation or double consolidation strategy!
- 5 Responsibility of parent even if children plan to repay – impacts parents' credit if ignored!



CONSOLIDATE BEFORE 10/31/2022



OTHER BENEFITS OF THE LIMITED WAIVER PSLF PROGRAM



*All Repayment Plans are Eligible*



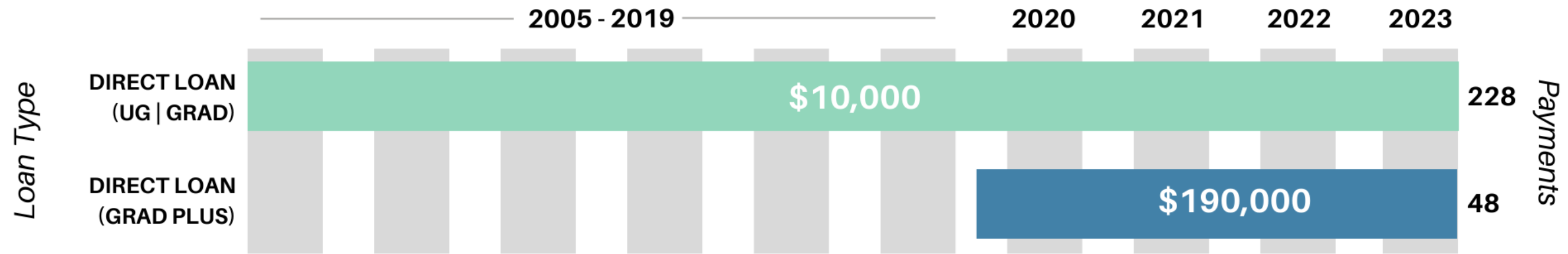
*Late and Partial Payments are Eligible*



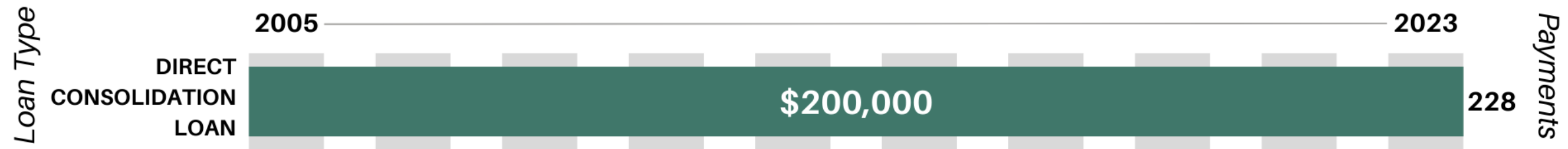
*Teacher Loan Forgiveness Periods are Eligible*



*No Need to Work for PSLF Organization When Applying for Forgiveness*



CONSOLIDATE BEFORE 04/30/2024 - CREDIT FOR OLDEST LOAN



CONSOLIDATE AFTER 06/30/2024 - WEIGHTED AVERAGE PAYMENT COUNT



OTHER BENEFITS OF THE FEDERAL IDR ACCOUNT ADJUSTMENT

- All Repayment Plans are Eligible
- Late and Partial Payments are Eligible
- Can Receive Credit Towards Accelerated PSLF
- Certain Deferment and Forbearance Will Count

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## DISCRETIONARY INCOME

AGI - 225% x Poverty Guideline by Household Size

## ANNUAL PAYMENT

Discretionary Income x 5% (Undergrad Debt) 10% (Graduate Debt)

## SAVE (REPLACES REPAYE)

5% Undergrad Debt (July 2024) | 100% Interest Subsidy

## MONTHLY PAYMENT

Annual Payment / 12 Months

### 2023 POVERTY GUIDELINES

	100%	225%
1	\$14,580	\$32,805
2	\$19,720	\$44,370
3	\$24,860	\$55,935
4	\$30,000	\$67,500
5	\$35,140	\$79,065



### SINGLE HOUSEHOLD SIZE BORROWER

\$50,000 Federal Debt Balance | 5% Interest Rate

	UNDERGRAD	GRADUATE	25% / 75%
\$50,000	\$72	\$143	\$125
\$100,000	\$280	\$560	\$490
\$200,000	\$697	\$1,393	\$1,219
\$400,000	\$1,530	\$3,060	\$2,677

Assumes payments are not capped at the standard 10-year repayment amount | Weighted average calculation is performed for borrowers with both undergraduate and graduate federal loan debt | 10-year repayment term applies to borrowers with loan balances under \$12,000 and 5% undergraduate debt multiplier go into effect in July 2024

# DIFFERENT STRATEGIES FOR DIFFERENT BORROWERS

To Refinance or Not To Refinance

LIFLs

*“Low Interest Rate  
Federal Loans”*

- On-track for forgiveness?
- **Least likely** candidates for refinancing

HIFLs

*“High Interest Rate  
Federal Loans”*

- On-track for loan forgiveness?
- **Possible** candidates for refinancing

PLs

*“Private Loans”*

- **Most likely** candidates for refinancing if you can find low-rate loan options!

# ADDITIONAL PLANNING CONSIDERATIONS

“There is more in the diary than just the map”

- 1 Student loans and the real estate market – impact of borrowing ability
- 2 Married borrower considerations– filing status, repayment plans, community property issues
- 3 40-month deferral provides opportunities – especially high-income clients working in public service
- 4 Legislative updates– wide-spread or limited debt relief, IDR adjustment, PSLF changes, updated rules going into effect 07/01/2024, other delays and changes in 2024?

# EMPLOYER-PROVIDED STUDENT LOAN ASSISTANCE

## Tax Planning Ramifications

Repayment Assistance Options	Employee	Employer	Assistance Limits
IRC 127 Plan	Tax-Free	Tax Deductible	\$5,250
No IRC 127 Plan	Taxable	Tax Deductible	No Limit
401(k) Match*	Tax-Deferred	Tax Deductible	Employer Plan

*\*Enacted Under Secure Act 2.0*

**Times Are Changing...**

**So Should Your Conversations**



# HIGHER ED TRENDS ADVISORS NEED TO BE AWARE OF

“If you’re not first, you’re last”

Enrollment increases – highly selective private schools, public schools in states with population growth (California and Texas), schools offering online degree programs

1

Enrollment decreases – less selective or well-known schools, public schools in states with declining HS graduation rates (Maine and Nevada)

2

Specializing isn’t only for advisors – academic major selection impacts acceptance rates!

3

Data is getting better and more transparent – Georgetown study, improved College Scorecard

4

Big focus on ROI and improving learner outcomes – Parents + Department of Education

5



PARENTS



STUDENT



BEST FIT



AFFORDABILITY

RETIREMENT SAVINGS

On-Track

Off-Track

"This won't derail your retirement"

Quadrant

COLLEGE CHOICE PRIORITY

PRIMARY FUNDING RESPONSIBILITY



"You're on track and have many options"

Quadrant

COLLEGE CHOICE PRIORITY

PRIMARY FUNDING RESPONSIBILITY



"You can't borrow for retirement"

Quadrant

COLLEGE CHOICE PRIORITY

PRIMARY FUNDING RESPONSIBILITY



"Let's focus on strategic school selection"

Quadrant

COLLEGE CHOICE PRIORITY

PRIMARY FUNDING RESPONSIBILITY



Academic Standing

LOW

AVERAGE

ABOVE AVERAGE

HIGH

Motivation Level

LOW

MODERATE

HIGH

Major / Career Path

UNDECIDED

DECIDED

# WHAT IT COSTS ≠ WHAT YOU PAY

---

**\$57,570**

**PRIVATE  
SCHOOL**

- Average annual sticker price of private non-profit 4-year university (2022-2023)

**\$27,940**

**PUBLIC  
SCHOOL**

- Average annual sticker price of public 4-year university (in-state students) (2022-2023)

**< \$30,000!**

**TRUE  
DIFFERENCE**

- True cost difference after taking into consideration financial aid distribution policies (merit and need-based aid)

# WHAT YOU PAY ≠ WHAT IT COST YOU

**\$30,000**



- Paid for with after-tax dollars
- With a 35% effective rate, would need to earn \$46,000!

**\$30,000**



- Paid for with pre-tax dollars at the state level
- Benefits from tax-deferred growth and tax-free distributions

**\$30,000**



- Repaid with interest over time
- May be more cost effective and the cheaper funding option if future tax-free loan forgiveness is still in play



WHAT YOU **SAVED**...

SHOULD IT BE **SPENT**?...

SHOULD IT BE SPENT **NOW**?...

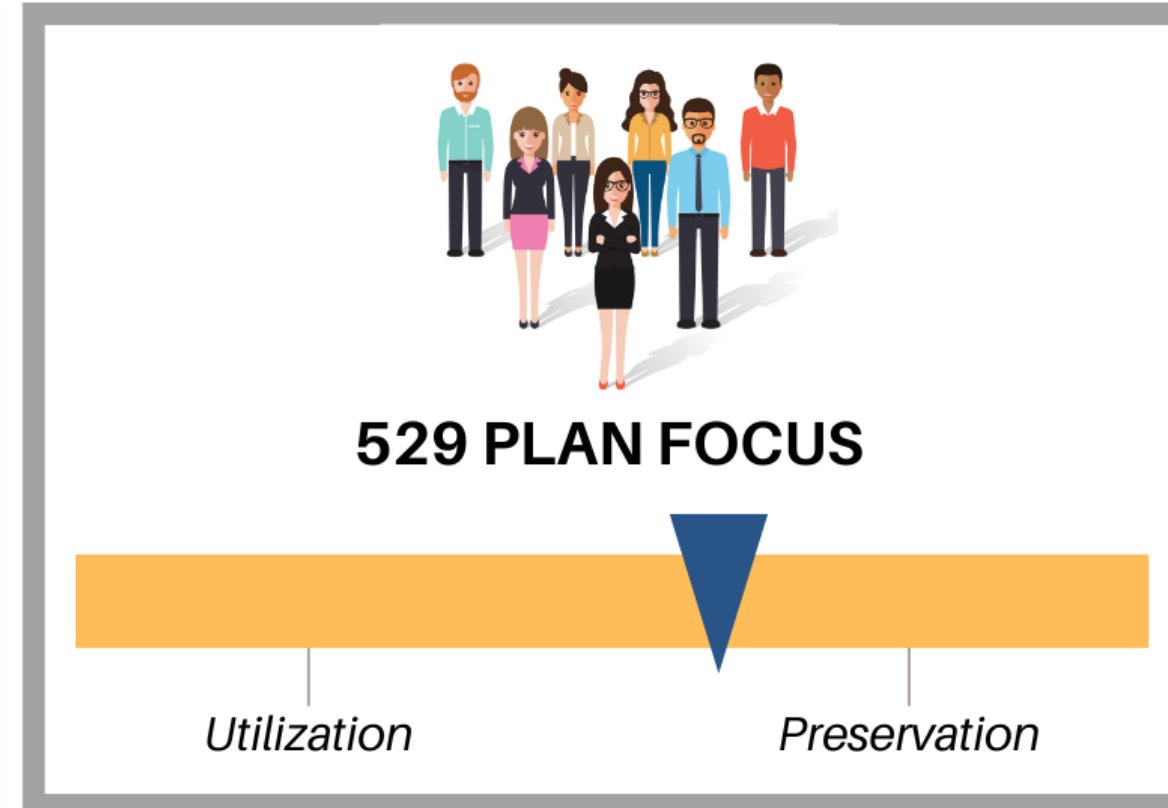
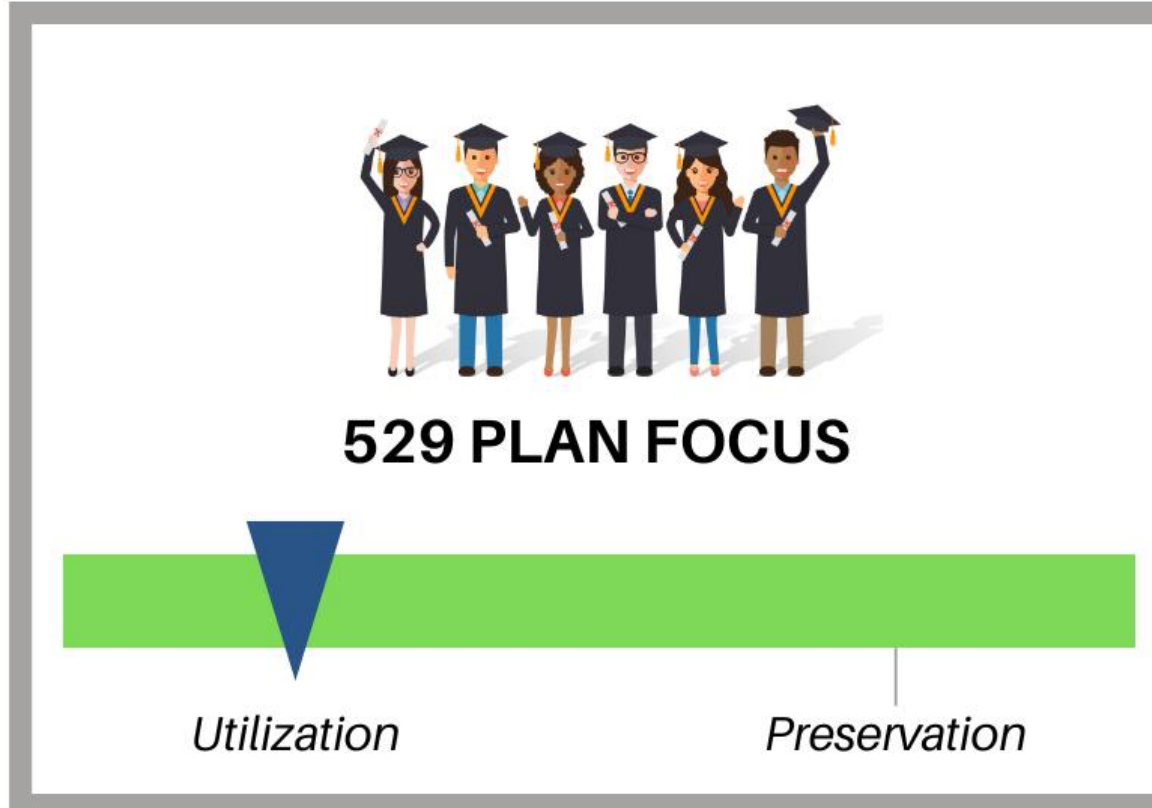
# DESIRE FOR FUTURE USE FLEXIBILITY

Low

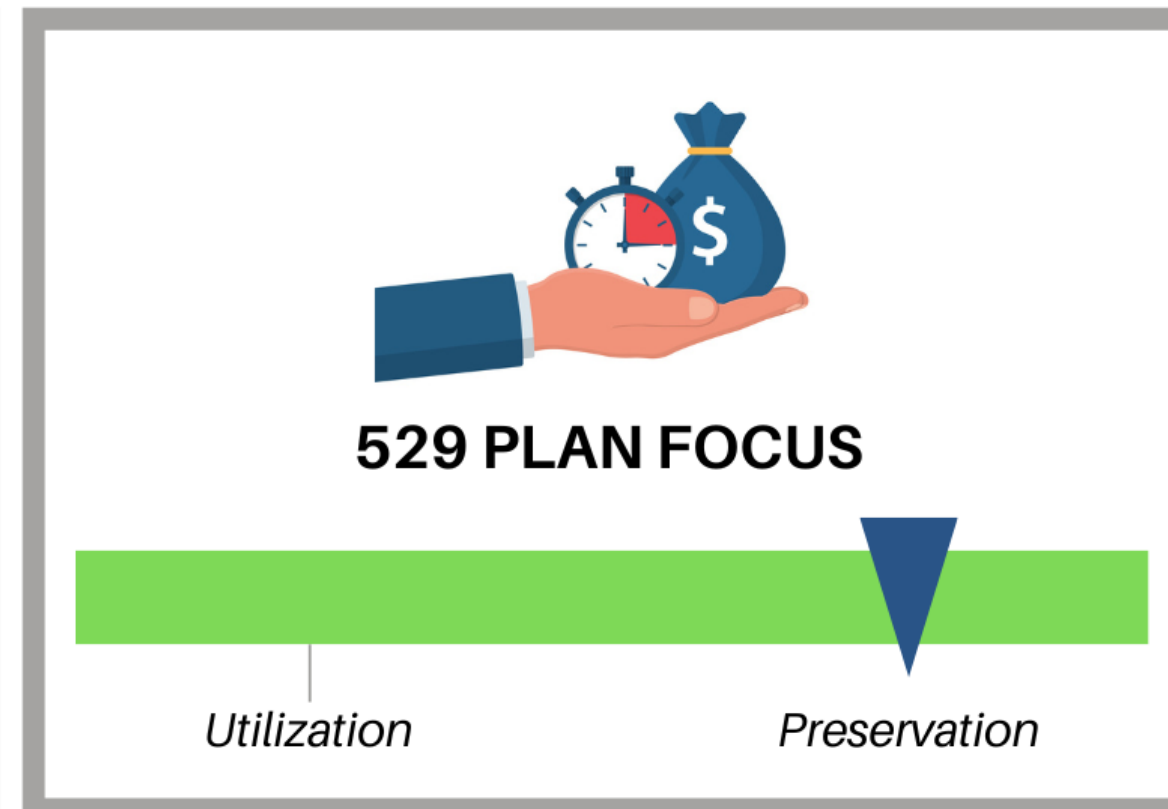
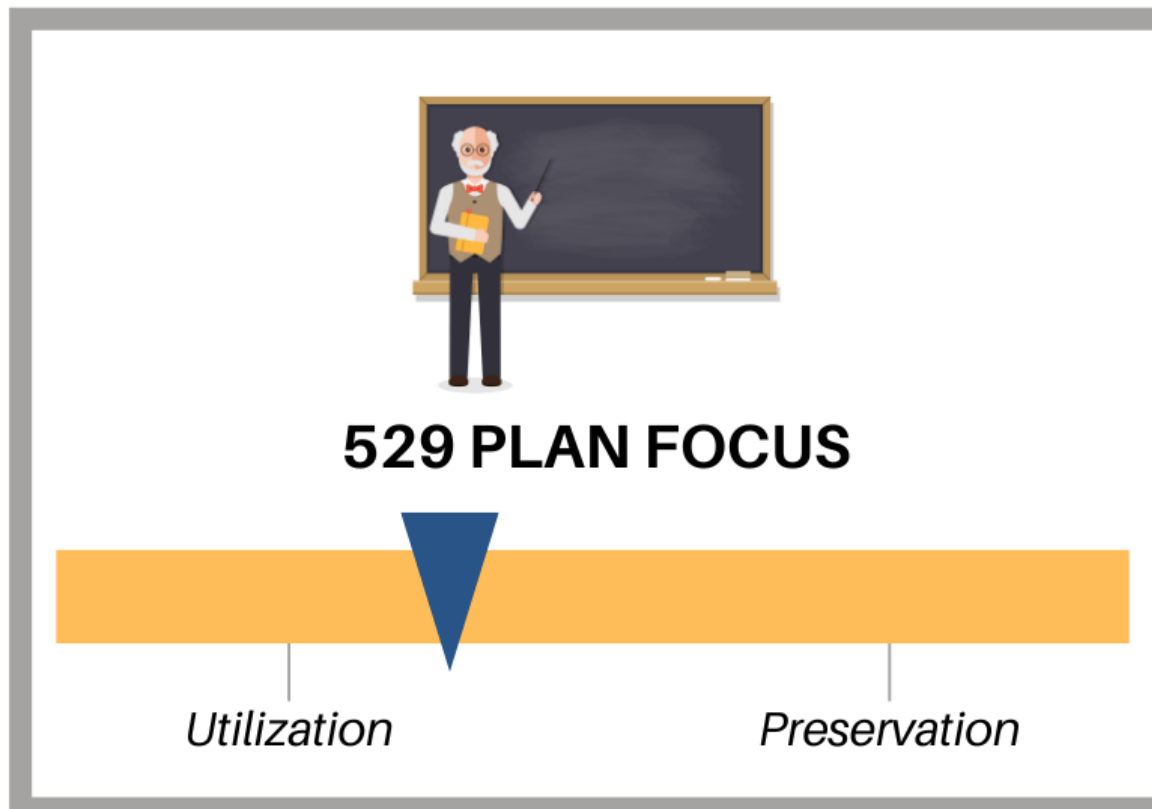
High

EXPECTED ROI ON COLLEGE

High



Low

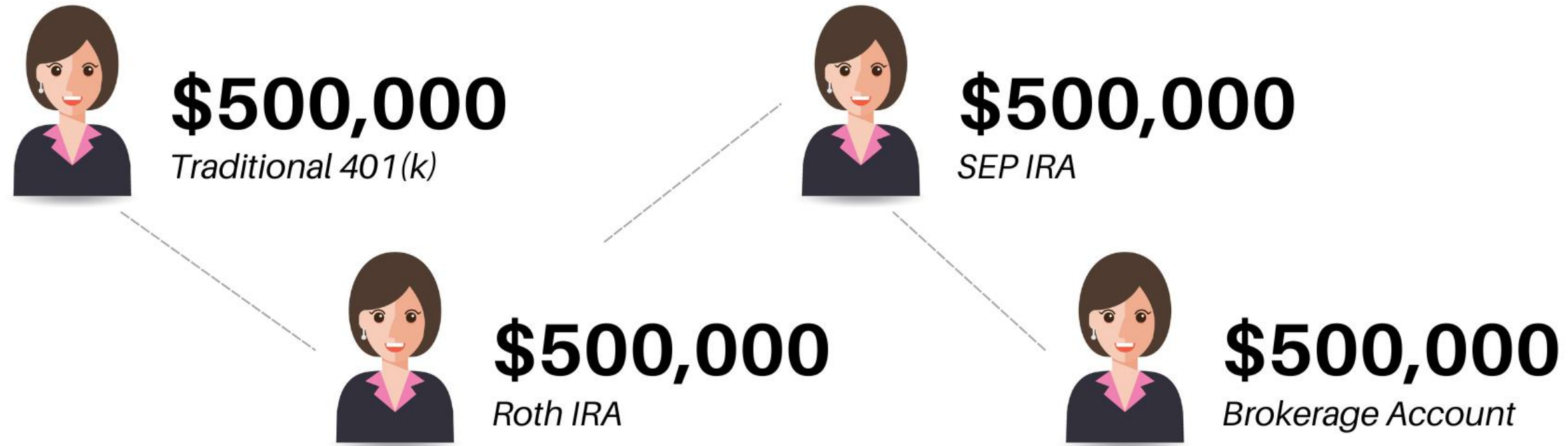


Low

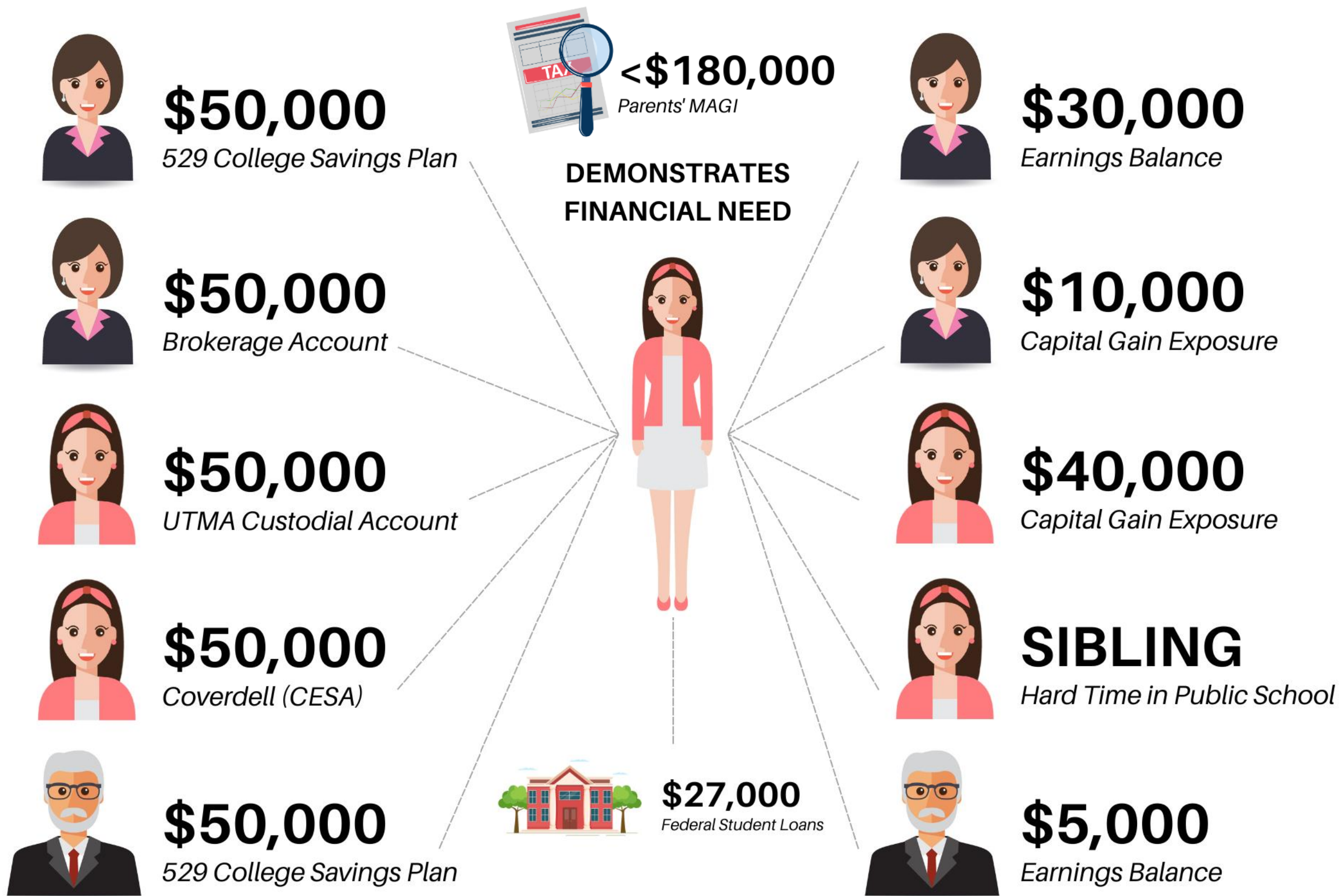
High

# PROBABILITY OF QUALIFYING FOR PSLF

Utilization assumes there is an opportunity to use 529 plan funds immediately for qualifying education expenses



**WHICH ACCOUNT SHOULD  
DISTRIBUTIONS BE TAKEN FROM FIRST?**





# Conventional Planning



**HOW MUCH TO  
SAVE**



**WHERE TO  
SAVE**



**WHERE TO  
APPLY**



**HOW TO  
PAY**



**HOW TO  
FILL THE GAP**

---

# NextGen Planning



**LEARNING  
PREFERENCES**



**LEARNING  
DELIVERY**



**THE COLLEGE  
EXPERIENCE**



**THE EDUCATION  
EXPERIENCE**



**INSTITUTIONAL  
VIABILITY**

**YAY, NO LOANS!**  
*Child of Client A*




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**\$200,000**  
*Business School Debt*

**YAY, NO LOANS!**  
*Child of Client B*




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**\$400,000**  
*Medical School Debt*

**YAY, NO LOANS!**  
*Child of Client C*



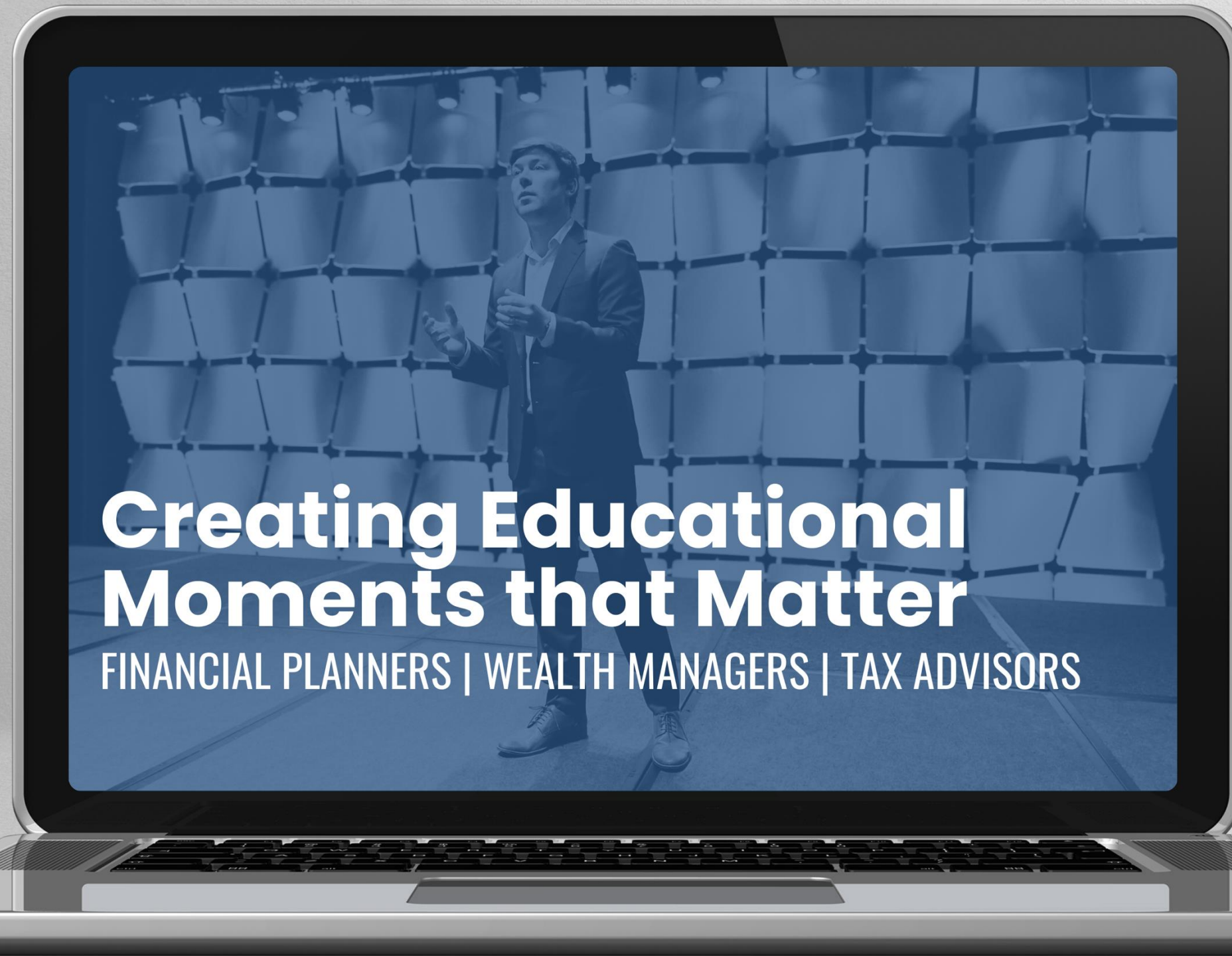
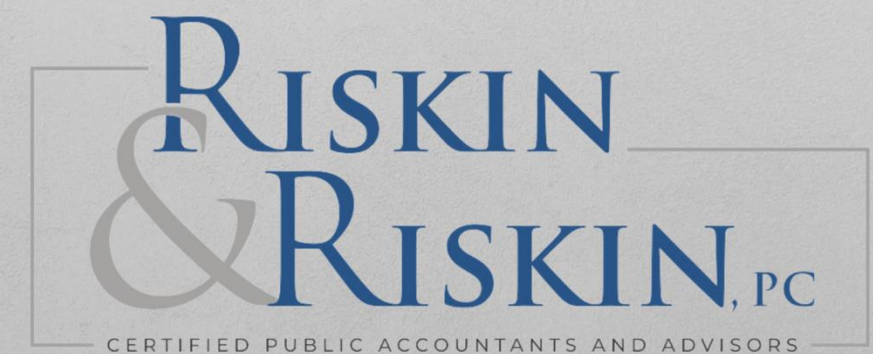
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**\$250,000**  
*Law School Debt*



# Dr. Ross Riskin



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