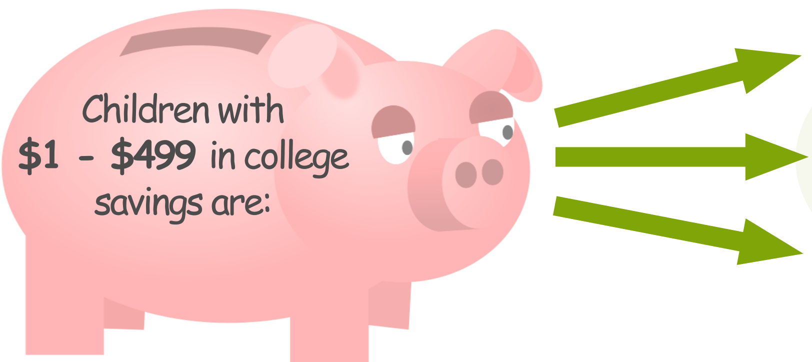
Extension
UNIVERSITY OF WISCONSIN–MADISON

COLLEGE SAVINGS

SMALL SAVINGS BUILD BIG DREAMS FOR YOUNG CHILDREN

Kids with money set aside just for college know that someone believes in them, so they work harder and do better in school. Even if you can only save a small amount, it still sends a powerful message and makes a big difference to a child's future. Find out more at **fyi.uwex.edu/collegesavings.**

Compared to children with no college savings . . .



3X more likely to attend college

4X more likely to graduate from college

PLUS - they do better in High School!

Source: Assets and Education Initiative (AEDI). (2013). Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education. In W. Elliott (Ed.), *Biannual report on the assets and education field*. Lawrence, KS.

Will my child get less financial aid?

Many families are concerned that college savings will reduce the amount of grants available. Know this: When it comes to need-based financial aid, ***income*** is almost always a bigger factor than having some money saved for college.

Income, savings, family size, and parents' age contribute to student aid calculated by the Free Application for Federal Student Aid (FAFSA). The Expected Family Contribution (EFC) is how much savings and income the family must pay toward college.

The EFC:

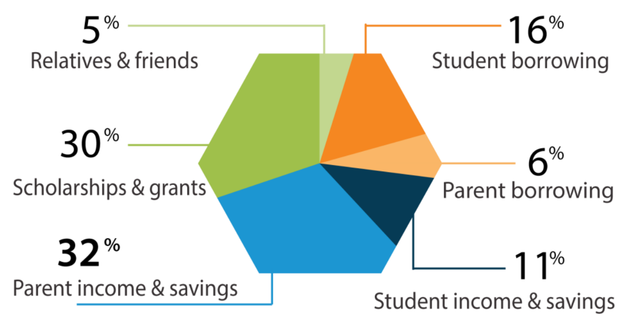
- Is higher for higher income households.
- Is less if you have more than 1 child in college.
- Is not affected by money in parents' retirement accounts or lower amounts of parental savings.
- Expects parents and students to use some (but not all) of their savings toward tuition.

College savings are only 1 factor in determining financial aid. To estimate your family EFC, check out: fafsa.gov OR finaid.org.

How to Pay for College:

Most parents and children can't save the full amount needed for their child's education. Combining more than one source of funds works best.

The graphic below shows the sources of money American families used to pay for college in 2015:



Source: Sallie Mae. 2015. "*How America Pays for College 2015.*"

Remember you can help children succeed in school and reach their dreams by saving a small amount just for college.

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Where can I save money for my child's college education?

Wisconsin in 529 Plan (Edvest or Tomorrow's Scholar)

- A 529 plan is an investment account used to save for qualified higher education expenses.
- Wisconsin has two plans that can be bought by anyone18 years or older with a Social Security Number or ITIN (Individual Taxpayer Identification Number):
  - Edvest – can be bought directly on the website, by mailing in an enrollment form, or calling (888) 338-3789 (non-English speakers can request a translator).
  - Tomorrow's Scholar – must be bought through a financial advisor
- Money saved in a 529 account can be used to pay for qualified expenses, including tuition, books, and certain room/board costs, at almost any college or university. Can also be used for adult continuing education.
- The account holder can use the money for any eligible family member (child, grandchild, nephew, stepchild, etc.).
- Anyone outside of WI can open a WI 529 plan, but there may be tax savings on deposits only for WI residents.
- With automatic deposits, the minimum monthly contribution is $15 (Edvest) or $25 (Scholar).

For more information:

- 529.wi.gov
- edvest.com
- tomorrowsscholar.com
- savingforcollege.com

Coverdell Education Savings Account (ESA)

- Formerly known as Education IRA's, a Coverdell ESA is an investment account used to save for qualified elementary, secondary, or college education expenses.
- ESA's are more commonly used to pay for public or private K-12 tuition, but money saved in an ESA can be used for qualified expenses in college until the child reaches age 30.
- Must be bought through a private investment firm, with many investment options available with no or low minimum deposits.
- Deposits are not tax deductible.
- No additional deposits allowed after child turns 18.
- Can be transferred to an eligible family member who is less than 30 years old.

For more information:

- irs.gov/taxtopics/tc310.html
- finaid.org/savings/coverdell.phtml
- savingforcollege.com

U.S. Savings Bonds

- When used for eligible college education expenses, all or some of the interest earned may be tax free, depending on the taxpayer's situation. Purchases are not tax deductible.
- Eligible expenses include tuition and mandatory fees, but not room, board or books, and are limited to bondholder, spouse, and dependents.
- Purchased electronically: $25 minimum for both EE and I Bonds.
- Purchased directly with a tax refund: $50 minimum for I Bond.

For more information:

- treasurydirect.gov
- irs.gov

Savings Account

- Financial institutions covered by either FDIC or NCUA insure your savings up to $250,000. Other savings options include money market accounts, NOW accounts, or CD's.
- You can withdraw your money at any time and use it for any reason.
- Different financial institutions have various minimums to open an account.
- Interest earned is not tax deductible.

For more information:

- finaid.org/savings/
- americasaves.org

Information is provided for educational purposes only and does not imply an endorsement of any specific financial product or service.

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