# YOUR PATH TO PAYING FOR COLLEGE

College is expensive. So the sooner you begin saving for your child's education, the better. Here's a roadmap to get you started saving early and be better prepared to help your child pay for college.

## BEFORE SAVING FOR COLLEGE

Many financial advisors recommend the following before investing in a college savings plan:

**Pay off personal debt** (e.g., credit cards or your own student loans).

**Build an emergency fund** that can cover 3 to 6 months of expenses in case of job loss or other emergencies.

**15%** **Contribute at least 15%** of your income to your own retirement fund.

Tip: Money in a 401(k) or IRA isn't counted as an asset when calculating federal financial aid. Also, if you try to use funds from these accounts to pay for college, that money is treated as income and could reduce the amount of financial aid your child can receive.

## WHEN YOUR CHILD IS...

### 0 YEARS OLD

**Talk to a financial advisor.**

Understand and evaluate different types of savings and investment options.

**Set a savings goal.**

Decide on a fixed amount or percentage of every paycheck to deposit into a savings account.

**Set up a college savings fund.**

You can establish a college savings account before your child is born. Start doing research to determine the right plan for your family.

### 1-5 YEARS OLD

**Start saving.**

Setting up automatic contributions is a great option to make it happen.

### 5-10 YEARS OLD

**Assess your savings.**

Do you need to save more? Now is a great time to use a college savings calculator to make sure you are on track to meet your savings goal. Use the Vanguard college savings planner at **vanguard.wealthmsi.com/csp.php**.

### 10-15 YEARS OLD

**Time to adjust.**

When your child reaches their teen years, adjust your investments to make sure savings are in less volatile investments (such as fixed income).

Tip: If you have a 529 plan, you can use an age-based investment option in your account, and the allocations will automatically adjust.

### 16-18 YEARS OLD

**Build your child's resume.**

Encourage your child to take an active interest in academics, sports, and other extracurricular activities.

**Help your teen get a job.**

Teach the importance of saving by encouraging your teen to get a part-time job. Any money they earn can go toward expenses or opportunities during college.

Tip: If your teen has earnings from a job, urge your teen to contribute money to a Roth IRA. The funds will not be counted as an asset when calculating federal financial aid.

**Reduce your "base year" income.**

January 1 through December 31 of your child's sophomore year of high school is considered your "base year" to determine financial aid for your child's first year of college. Look for ways to reduce your net worth before January 1 arrives.

Tip: Use assets to pay down any debt and try to receive any expected financial windfalls before the year begins. You can also increase your pre-tax contributions or participate in catch-up contributions (if eligible) to max out your 401(k), leading up to your base year. Learn more about your 401(k) contribution options and explore financial advice at **vanguard.com/retirementplans**.

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## BENEFITS OF A COLLEGE SAVINGS PLAN

**Potential for greater earnings.** Investing money rather than letting it grow in a low interest savings account means you could potentially have more money for college. But remember: There are still risks since investments aren't guaranteed.

**Tax-free growth.** As long as you use the funds for approved educational expenses, you will not have to pay taxes on your earnings.

**Tax incentives.** Many states offer tax incentives for contributing to a college savings plan.

**Reduce debt.** Saving up front means your child will be less likely to go into debt to pay for college and avoid costly interest on student loans.

## LIMITATIONS OF A COLLEGE SAVINGS PLAN

All funds must be used for qualified education expenses, or earnings may be subject to tax and penalties. Investments may not be guaranteed, so you could potentially lose money if the market drops.

## COMPARE YOUR COLLEGE SAVINGS OPTIONS

| 529 College Savings Plan | 529 Prepaid Tuition Plan | Coverdell Education Savings Account |
|---|---|---|
| Open a state-sponsored investment account and use funds for qualifying educational expenses | Lock in the tuition price charged at the state's public colleges in the year you enroll in the program | Make tax-free contributions to the stock, bond, or mutual fund of your choice and use funds for qualifying educational expenses |
| No income restrictions | No income restrictions | Account custodian must make less than $110, 000 (single) or $220,000 (married, filing jointly) per year |
| Each plan establishes its own contribution limits (there are no limits on how much you can contribute per year, but many states cap total contributions) | Each plan establishes its own contribution limits (there are no limits on how much you can contribute per year, but many states cap total contributions) | Strict annual contribution limits of $2,000 per beneficiary from birth to age 18 |
| Limited range of investment options (varies by state) | No investment options | Broad range of investments and allows self-directed investments |
| Allows changes to investment allocation only twice per year | No option to adjust investment allocation | Ability to change your investment allocation at will |
| No age limits for contributions or withdrawals | No age limits for contributions or withdrawals | Beneficiary must be 18 years old or younger when account is established, and contributions must be made and assets must be used before beneficiary turns 30 |
| Many states offer tax-deductions or credits for contributions | Many states offer tax-deductions or credits for contributions | No tax-deductions offered by states |
| Contributions aren't tax-deductible for federal income tax, but may be eligible for state tax-deduction or credit | Contributions aren't tax-deductible for federal income tax, but may be eligible for state tax-deduction or credit | Contributions aren't tax-deductible |
| Withdrawals are tax-free as long as they are used for qualified education expenses (tax-free withdrawals are limited to $10,000 per year for K-12 students) | Withdrawals are tax-free as long as they are used for qualified education expenses | Withdrawals are tax-free, assuming they are less than the annual adjusted qualified education expenses (includes tuition, books, equipment, special needs services, and even academic tutoring) |
| May be used for qualified education expenses for primary, secondary, and higher education | May be used for qualified education expenses at colleges and universities (restrictions on which colleges they may be used for and cannot be used to cover room and board) | May be used for qualified education expenses for primary, secondary, and higher education |

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