Catching up on college savings
STRATEGIES FOR FAMILIES JUST GETTING STARTED WITH COLLEGE PLANNING

The financial demands of raising kids while also paying the bills and planning for retirement can push college savings to the back burner. The good news is that families still have time to start and build their college portfolios while also taking advantage of other funding sources.

Start with a number
Answer three simple questions to see how much to begin investing for college each month.

1. How old is the child?
The age of the child will determine the time horizon for investing. The earlier you start, the greater the potential benefits of compounding returns. Set a separate savings goal for each child, based on their current ages.

2. Will the child attend public or private college?
The earlier college savings begin, the more feasible a private university may be. There are many higher education opportunities available. Be realistic about what’s affordable without borrowing heavily.

3. What percent of total costs do parents expect to pay?
Paying 100% of the costs with investments may not be possible for everyone. Consider aiming for a portion, with the rest coming from financial aid, loans or other sources.

MONTHLY INVESTMENT TO REACH COLLEGE SAVINGS GOAL

PUBLIC COLLEGE

<table>
<thead>
<tr>
<th>Child’s current age</th>
<th>Total four-year cost</th>
<th>Monthly investment to pay:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>10</td>
<td>$132,264</td>
<td>$539</td>
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<tr>
<td>12</td>
<td>$119,967</td>
<td>$694</td>
</tr>
<tr>
<td>14</td>
<td>$108,814</td>
<td>$1,004</td>
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</table>

PRIVATE COLLEGE

<table>
<thead>
<tr>
<th>Child’s current age</th>
<th>Total four-year cost</th>
<th>Monthly investment to pay:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>10</td>
<td>$298,978</td>
<td>$1,219</td>
</tr>
<tr>
<td>12</td>
<td>$271,182</td>
<td>$1,569</td>
</tr>
<tr>
<td>14</td>
<td>$245,970</td>
<td>$2,270</td>
</tr>
</tbody>
</table>

1 J.P. Morgan Asset Management. Based on national averages of tuition, fees and room/board costs for 2017-18 school year. The College Board’s 2017 Trends in College Pricing. Costs estimated to inflate 5% per year. This hypothetical example illustrates the future values of different regular monthly investments for different time periods and assumes an annual investment return of 6%, compounded monthly. This hypothetical example does not represent the performance of any particular investment. Different assumptions will result in outcomes different from this example. Your results may be more or less than the figures shown. These figures do not reflect the impact of fees or expenses that would be paid by a 529 plan participant. These costs would lower performance. A plan of regular investment cannot assure a profit or protect against a loss in a declining market.

INVESTMENTS ARE NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE
Strategies for maximizing college savings

Starting later with a college plan is better than not starting at all. With some disciplined saving and smart investing, there’s still time to build a sizable portfolio.

Start now to make the most of compounding
Don’t wait until later to make the full monthly investment needed to reach college savings goals. Simply start with whatever amount is manageable and then increase it after earning raises, paying off debts, reducing expenses and freeing up other funds.

Put college savings on autopilot
Treat college savings as another bill that must be paid on time by automatically transferring funds from a bank account each month.

Invest windfalls
Use bonuses, tax refunds, inheritances and other “found money” to build college accounts without disrupting the family budget.

Get cash reserves to work harder
Six in 10 college investors use general savings accounts currently earning very low interest rates. Moving some of those dollars into investments with higher return potential may help college funds grow faster and keep pace with tuition inflation.

Reduce taxes with a 529 college savings plan
Taxes can erode investment returns and leave college savers with less. A 529 plan allows anyone at any income level to grow and withdraw money tax free to pay any qualified expense at any eligible college—community colleges, four-year universities, graduate schools and vocational-technical schools.

In many cases, investors can also deduct contributions to their home state’s 529 plan from state income taxes. In New York, for example, taxpayers can deduct up to $10,000 in contributions each year if married filing jointly, or up to $5,000 if single.

IT CAN PAY TO INVEST IN A TAX-FREE 529 PLAN

Amounts needed to fully fund four years of in-state public college in eight years

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Payment Required in Eight Years</th>
<th>Savings*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax-free 529 plan ($1,079/month)</td>
<td>$103,571</td>
<td>22%</td>
</tr>
<tr>
<td>Taxable account ($1,180/month)</td>
<td>$113,241</td>
<td>14%</td>
</tr>
<tr>
<td>Pay full cost out of pocket</td>
<td>$132,264</td>
<td>0%</td>
</tr>
<tr>
<td>Repay loan</td>
<td>$184,283</td>
<td>39%</td>
</tr>
</tbody>
</table>

*529 plans allow large contributions that can help you pay for college from your investment earnings instead of your pocket.

1 Sallie Mae, How America Saves for College, 2017.

2 Earnings on non-qualified withdrawals may be subject to federal income tax and a 10% federal penalty tax, as well as state and local income taxes. Federal law allows distributions for K-12 Tuition Expenses of up to $10,000 per beneficiary per year. Under New York State law, distributions for K-12 Tuition Expenses will be considered non-qualified withdrawals and will require the recapture of any New York State tax benefits that have accrued on contributions.

3 Deductions may be subject to recapture in certain circumstances, such as rollovers to another state’s plan or New York non-qualified withdrawals. J.P. Morgan Asset Management. This hypothetical illustration assumes an annual investment return of 6%, compounded monthly. Investment losses could affect the relative tax-deferred investing advantage. Each investor should consider his or her current and anticipated investment horizon and income tax bracket when making an investment decision, as the illustration may not reflect these factors. The taxable investing illustration assumes a federal tax rate of 35%. The borrowing illustration assumes an interest rate of 7% and a payback period of 10 years. Projected four-year college costs are based on The College Board’s 2017 Trends in College Pricing, assuming 5% annual inflation. Different assumptions will result in outcomes different from this example. Your results may be more or less than the figures shown. This example does not represent the performance of any specific investment and does not reflect any management fees or expenses that would be paid by a 529 plan participant. These costs would lower performance. The chart is shown for illustrative purposes only. Past performance is no guarantee of future results.
Get grandparents, aunts, uncles and others involved with 529 plan gifts

With other college savings accounts, tax-free gifts are limited to $15,000 per child each year from individuals and $30,000 from married couples filing jointly. Only 529 plans offer a special feature known as “accelerated gifting.” It allows contributors to make five years’ worth of tax-free gifts in a single year—up to $75,000 per child from individuals and $150,000 from couples.¹

529 PLANS ALLOW LARGE GIFTS TO HELP MAKE UP FOR LOST TIME

<table>
<thead>
<tr>
<th>Gift giver</th>
<th>Maximum tax-free 529 plan gift¹</th>
<th>Investment growth over eight years²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>$75,000 per child</td>
<td>$119,539</td>
</tr>
<tr>
<td>Couple</td>
<td>$150,000 per child</td>
<td>$239,077</td>
</tr>
</tbody>
</table>

COMBINING SAVINGS STRATEGIES CAN INCREASE COLLEGE FUNDS

Impact of monthly savings combined with tax refunds, bonuses and gifts over eight years for projected four-year public college costs ³

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Public college costs covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>$475/month ($5,700 annually)</td>
<td>44%</td>
</tr>
<tr>
<td>$475/month + $1,000 annual tax refunds</td>
<td>52%</td>
</tr>
<tr>
<td>$475/month + $2,000 annual bonuses</td>
<td>60%</td>
</tr>
<tr>
<td>$475/month + $3,000 annual family gifts</td>
<td>67%</td>
</tr>
<tr>
<td>All strategies combined ($475/month + $6,000 annual contribution)</td>
<td>99%</td>
</tr>
</tbody>
</table>

³ No additional gifts can be made to the same beneficiary over the five-year period. If the donor does not survive the five years, a portion of the gift is added back to the estate for purposes of calculating estate taxes.

¹ J.P. Morgan Asset Management. This hypothetical illustration assumes an annual investment return of 6%, compounded monthly. Investment losses could affect the relative tax-deferred investing advantage. Each investor should consider his or her current and anticipated investment horizon and income tax bracket when making an investment decision, as the illustration may not reflect these factors. Projected four-year college costs are based on The College Board’s 2017 Trends in College Pricing, assuming 5% annual inflation. Projected public and private college costs for this example are $132,264 and $298,978, respectively, both of which include national averages of tuition, room and board. Different assumptions will result in outcomes different from this example. Your results may be more or less than the figures shown. This example does not represent the performance of any specific investment and does not reflect any management fees or expenses that would be paid by a 529 plan participant. These costs would lower performance. This chart is shown for illustrative purposes only. Past performance is no guarantee of future results.

² J.P. Morgan Asset Management. This hypothetical illustration assumes an annual investment return of 6%, compounded monthly. Investment losses could affect the relative tax-deferred investing advantage. Each investor should consider his or her current and anticipated investment horizon and income tax bracket when making an investment decision, as the illustration may not reflect these factors. “All strategies combined” reflects $475 monthly investments, plus $6,000 in combined annual tax refunds, bonuses and family gifts. Projected four-year college costs are based on The College Board’s 2017 Trends in College Pricing, assuming 5% annual inflation. Projected college costs for this example are $132,264, which includes tuition, room and board. Different assumptions will result in outcomes different from this example. Your results may be more or less than the figures shown. This example does not represent the performance of any specific investment and does not reflect any management fees or expenses that would be paid by a 529 plan participant. These costs would lower performance. This chart is shown for illustrative purposes only. Past performance is no guarantee of future results. Tax refunds, bonuses and gifts for this example were applied at the beginning of each year.
Tapping into other sources of college funding

Savings alone won’t typically cover the entire cost of college, especially when getting a later start. Fortunately, families may be able to pay some of the bills with income, tax credits and loans—as well as financial aid for those who qualify (see page 6 for additional information).

Be realistic about paying out of pocket

Parents should explore other funding sources even if they expect to cover all college costs with paychecks and savings. Work, family or financial circumstances could always change in the future.

Claim education tax credits

Eligible families meeting certain income requirements can claim one of two college-related tax breaks per student in any given year. The American Opportunity Tax Credit reduces federal taxes by up to $2,500 per student each year, for the first four years of college. The Lifetime Learning Credit covers an unlimited number of years but is capped at a maximum of $2,000 per annual tax return. Neither credit can be claimed in the same tax year or for the same expenses paid with tax-free withdrawals from a 529 plan.

Know the consequences of withdrawing retirement funds

Spending retirement dollars on college may not be a good idea. First, it can put a parent’s financial security at risk. Every dollar withdrawn for college can mean several dollars less for retirement, due to years of lost investment earnings and compounding. Second, it may trigger taxes and early withdrawal penalties. And third, it can reduce financial aid because the withdrawal is treated as student income, 50% of which counts toward the federal financial aid calculation.

1 J.P. Morgan Asset Management. This hypothetical illustration assumes that assets would have remained in a tax-advantaged retirement account instead of being withdrawn for college, earning 6% annual investment returns for 20 years, compounded monthly. Different assumptions will result in outcomes different from this example. Your results may be more or less than the figures shown. This example does not represent the performance of any specific investment and does not reflect any management fees or expenses that would be paid by a 529 plan participant. These costs would lower performance. This chart is shown for illustrative purposes only. Past performance is no guarantee of future results.
Understand the pros and cons of parental loans

For parents wishing to borrow for a child’s education, one of the most commonly used options is a Direct PLUS Loan from the U.S. government. Parents can currently borrow the full cost of college attendance, minus any other financial aid received, at a 6.31% interest rate that remains fixed for the life of the loan.1 Other borrowing alternatives may include:

- **Home equity loans**: These loans may offer lower interest rates and fees than federal loans. However, homeowners risk foreclosure if the loan isn’t repaid, and the amount borrowed may count as a parental asset when determining financial aid eligibility.

- **Private loans**: Loans from banks, credit unions and other non-government lenders can help pay college expenses not covered by financial aid or federal loans. Be aware, though, that private loans often have higher and variable interest rates along with less flexible payment options.

- **401(k) plan loans**: Retirement plan borrowers have the advantage of paying interest to themselves instead of a lender. On the downside, they may lose some investment earning power while money is out of their 401(k) and miss out on an employer match as the loan is repaid. If they leave their job, they typically must repay the full loan within 60 days to avoid taxes and penalties.

Check credit scores and consider the size and timing of payments before applying for loans. College debt is often payable in the years leading up to retirement, which could hurt parents’ ability to fund IRAs and 401(k)s.

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1 Interest rate applies to loans first disbursed between July 1, 2016, and July 1, 2017.

Tips for enhancing financial aid eligibility

Even families that earn too much to qualify for need-based grants should file a Free Application for Federal Student Aid (FAFSA) for each year of college. Many states, colleges and scholarship sponsors also use the FAFSA to determine eligibility for merit-based aid.

Open new college accounts in parents’ names
Only a maximum of 5.64% of parental assets count against federal aid, compared to 20% of student assets.

Transfer or spend custodial accounts
Federal aid formulas consider 20% of assets in custodial (e.g., UGMA; UTMA) accounts set up for a child’s benefit. Consider either transferring those accounts to parent-owned 529 plans or spending that money before filing a FAFSA.\(^1\)

Avoid retirement account withdrawals
They are considered student income, half of which may count against federal aid packages.

File early
Submit the FAFSA and any college-required financial aid applications as early as possible each year. Most schools award aid on a first-come, first-served basis to eligible families. The FAFSA is available each October for the following academic year.

HOW MUCH FEDERAL AID CAN FAMILIES EXPECT?
Visit studentaid.ed.gov/fafsa/estimate for an online calculator estimating future eligibility for federal grants and student loans as well as Expected Family Contribution (EFC)—the dollar amount colleges use to determine aid.

TAKE FULL ADVANTAGE OF SCHOLARSHIP OPPORTUNITIES
A child doesn’t have to be class valedictorian or a star athlete to earn scholarships. Half of U.S. college students currently receive merit-based gifts averaging nearly $9,000 per year—only a fraction of total costs, but enough to make a difference in family budgets and school choices.\(^2\)

Scholarships worth billions of dollars are offered each year—and many go unclaimed.
They are available from not only schools, but also charities, corporations, employers, religious groups, professional associations and community organizations. Search for them online and consult the financial aid office at colleges under consideration.

FINDING FINANCIAL AID INFORMATION ONLINE
The internet is full of valuable resources; here’s just a small sampling.

- **GRANTS AND SCHOLARSHIPS**
  - cappex.com
  - petersons.com
  - collegeboard.org
  - fastweb.com

- **FEDERAL FINANCIAL AID**
  - fafsa.gov
  - studentaid.gov

- **COLLEGE LOANS**
  - studentloans.gov

Students who are New York state (NYS) residents should also visit hesc.ny.gov for financial information from the NYS Higher Education Services Corporation (HESC), the state’s Financial Aid agency.

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\(^1\) Redeeming custodial accounts, such as UGMA/UTMA accounts, may be a taxable event. Investors should consult their financial advisor or tax professional before moving those funds to a 529 plan.

Strategies for reducing college costs

Saving more is one way to meet college goals; paying less is another. These strategies can help families lower expenses and stretch their college dollars further.

Attend in-state public colleges
In 2017-18, attending an in-state public college saved the average family approximately $15,000 in tuition and fees compared to out-of-state colleges and nearly $24,000 versus private universities.¹

Consider two years of community college
Community college students can spend freshmen and sophomore years taking required classes and earning associate degrees at a fraction of the cost, before transferring to four-year universities for bachelor’s degrees. In addition to saving money, this strategy may allow more time for portfolios to grow and students to improve their grades and earn acceptance into more competitive schools.

Live at home
Half of college students live at home to cut costs.² At the average four-year public university, that currently translates into a savings of more than $10,000 for a single school year.¹

Look into online learning
Online classes may help reduce tuition and housing costs while also providing more flexibility to students wishing to work while pursuing a degree or earn credits over the summer.

Shorten college with Advanced Placement (AP)
AP courses, or other college classes offered to high school students, allow students to earn college credits while still in high school, so they can graduate sooner, pay less and get a head start on their career.

Accelerate the education
Some colleges offer programs for earning bachelor’s degrees in just three years, saving families one full year of expenses.

Consider the field of study carefully
Choice of major can affect students’ costs during college and their debt burden, job prospects and starting salaries after graduation.

Lock in tuition
Ask colleges if they offer “fixed-price tuition.” It guarantees tuition won’t change between freshmen and senior years to help families avoid rampant college inflation.

MAJOR DIFFERENCES IN COLLEGE TUITION AND FEES

<table>
<thead>
<tr>
<th>2017-18 school year (national averages, excludes room and board)¹</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Community college</td>
<td>$3,570</td>
</tr>
<tr>
<td>In-state public college</td>
<td>$9,650</td>
</tr>
<tr>
<td>Out-of-state public college</td>
<td>$25,620</td>
</tr>
<tr>
<td>Private college</td>
<td>$34,740</td>
</tr>
</tbody>
</table>

¹ The College Board’s 2017 Trends in College Pricing. Assumes in-district residency for community college. Costs are national averages.
² Sallie Mae, How America Pays for College, 2016.
Before you invest, consider whether your or the Beneficiary’s home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state’s qualified tuition program.

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529-CATCHINGUP

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