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The latest developments in college planning

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What's ahead for college investors?

The college planning landscape keeps changing, but the need to invest doesn't. As we head toward year-end 2023 and into 2024, three key developments underscore the importance and benefits of building stronger college savings accounts:

1. New FAFSA coming in December may mean less federal financial aid .... **pages 1-2**
2. Recent student loan news reminds families to plan ahead .... **pages 2-3**
3. Tax-free rollovers from 529 plans to Roth IRAs starting in 2024 .... **pages 3-4**

1 New FAFSA coming in December may mean less federal financial aid

The federal financial aid application released October 1 each year will be delayed until December 2023 to incorporate **sweeping changes taking effect for the 2024-25 school year and beyond.** The Free Application for Federal Student Aid (FAFSA) is being shortened and simplified to encourage more families to complete it.

The application process will stay the same. For each year of college, students must submit a FAFSA to receive financial aid from the U.S. government as well as states and schools. Besides the simpler form, the formula for determining eligibility is also changing. Under the new rules summarized here, some families may qualify for less aid, especially higher earners with multiple kids in college at once.

SAI replaces EFC

Today, information reported on the FAFSA is used to award financial aid based on **"Expected Family Contribution" (EFC)**. Because many families end up paying more than their EFC, the term is being renamed **"Student Aid Index" (SAI)** to avoid confusion.

Both EFC and SAI are dollar amounts subtracted from the cost of college to determine financial need. The lower the number, the greater the need. However, the method for calculating SAI will be different. One significant difference is the EFC calculation considers family income and assets as a whole, while the SAI will look at students individually. This could have a major impact on financial aid packages going forward.

Say goodbye to the "sibling discount"

Under current federal rules, **EFC is divided** by the number of family members enrolled in college at the same time. Under new rules, **SAI will be multiplied** by each student, which could significantly reduce financial need and increase a family's out-of-pocket costs.

Example: The Smiths have twin daughters in college and an EFC of $30,000 for the 2023-24 school year. They would pay roughly **$15,000 per child** under current rules, but their costs could double to **$30,000 per child** if the new rules were in effect for 2024-25.[1]

The Smith's out-of-pocket college costs[1]

	Family contribution from federal formula		Children in college		Family out-of-pocket costs
Current federal rules	$30,000	÷	$15,000 per child	›	**$30,000 total**
New federal rules	$30,000	×	$30,000 per child	›	**$60,000 total**

Note: New rules take effect for the 2024-25 school year.

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Good news for extended family and friends

Today, 529 college accounts owned by grandparents, aunts, uncles, friends and other non-parents are not reported on the FAFSA. **New legislative rules now allow for withdrawals from those 529 accounts to be excluded** as well, allowing more people to invest for children without negatively affecting federal financial aid. This can be especially beneficial for investors with estate or legacy goals because 529 plans allow larger tax-free gifts than other education accounts.

Shielding more income from aid calculations

The federal financial aid formula features an **Income Protection Allowance** that enables families to increase eligibility by excluding some of their earnings from consideration. The new rules increase that allowance by about 20% for parents of dependent students and by 35% for students themselves.

Some single parents may get less aid

In two-parent households, both spouses are included on the FAFSA, but the rules are changing for divorced or separated couples. Up until now, parents who housed a child for most of the previous 12 months filed the FAFSA, using only their financial information. Starting in December, **parents providing the most financial support must apply**, based on their income and investments. If they are the higher earner, students may qualify for less federal aid.

Other FAFSA changes

- Eligibility for **Federal Pell Grants** is expanding, but many middle- and upper-income families still won't qualify.
- **Some forms of income won't be reported** on the new FAFSA, including pre-tax contributions to employer retirement plans and worker's compensation benefits. Child support received will be treated more favorably as an asset instead of income.
- Families will no longer be able to reduce income based on **state and other taxes**.
- The income cap to be **exempt from reporting assets** is increasing from $50,000 to $60,000.
- **Financial aid appeals** to colleges are being expanded to cover more special circumstances that could affect a family's ability to pay for school.

If you have kids in college, be sure to file the new FAFSA as soon as it becomes available, because most aid is awarded on a first-come, first-served basis. Consider filing even if you may earn too much to qualify for need-based aid. The FAFSA is also required for federal loans, and many colleges use it to issue financial aid packages.

What about the CSS Profile?

In addition to the FAFSA, some colleges require a second application known as the CSS Profile to award their own financial aid. The online form for the 2024-25 school year became available on October 1, 2023.

The CSS Profile collects more data than the FAFSA, uses a different method to determine eligibility and is not required to follow federal rules. For example, it currently provides relief for multiple kids in college and requires both parents to report financial information if divorced or separated.

2 Recent student loan news reminds families to plan ahead

These headlines shine a light on the heavy burden of college debt and the growing need to lighten it for future graduates.

Federal student loan payments restart

The long payment holiday for federal student loan holders is over. After being temporarily reduced to zero in March 2020, interest started accruing again in September and first payments came due in October.

Borrowers are once again feeling the weight of these monthly bills after three-plus years, while recent college graduates face their first payments ever. Of the 27 million Americans affected, about half owe more than $200 each month and nearly 20% owe in excess of $500.[2]

To ease the transition, missed federal student loan payments over the first 12 months will not be subject to late fees, penalties or negative credit reporting. However, interest will continue to accumulate.

Student loan interest rates rise again

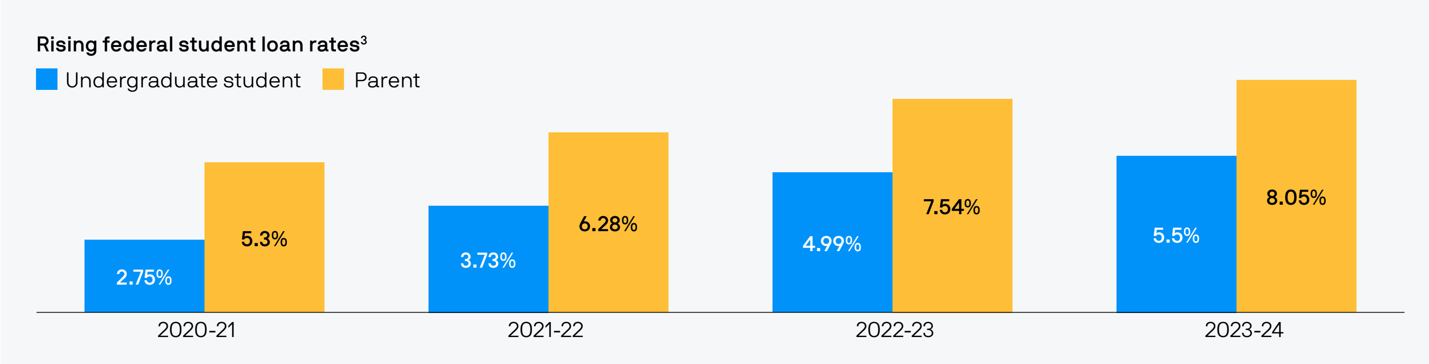
Interest rates on federal student loans increased for the 2023-24 school year and now stand at their highest levels in more than a decade. Since 2020-21 alone, rates on undergraduate loans have doubled from 2.75% to 5.5%, while parents have seen rates jump from 5.3% to 8.05%.[3]

Federal rates reset each year and remain in effect for the life of the loan. That means higher rates now translate into higher monthly payments after college, when new graduates can least afford them.

Supreme Court strikes down loan forgiveness

Since the Supreme Court's ruling in June, the Biden administration has announced a new plan for forgiving federal student loan debt, but only after 10 or more years of payments.

The Saving on a Valuable Education (SAVE) Plan will take full effect in July 2024, but could face legal challenges before then. Whatever happens, it seems clear that taking out loans and hoping they will someday be forgiven is not a sound college planning strategy.



3 Tax-free rollovers from 529 plans to Roth IRAs starting in 2024

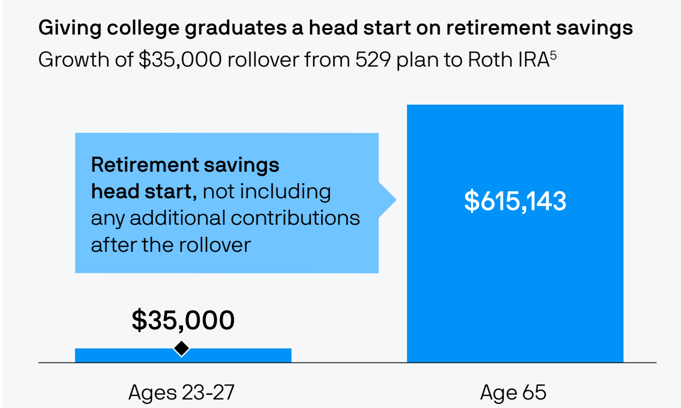
Beginning in 2024, 529 plan owners can move a maximum of $35,000 into a Roth Individual Retirement Account (IRA) for the same beneficiary. This new option may ease concerns about overfunding 529 accounts while also giving recent college graduates a valuable head start on retirement savings.

That includes the critical first years after college, when graduates have the most time to build wealth but often can't afford to invest. Roth IRA contributors are usually subject to income limits, but not when making transfers from 529 plans.

Making 529 plans even more flexible

Even before Roth IRA rollovers, families had several options for avoiding excess balances in their 529 accounts. They could make federal tax-free withdrawals for K-12 tuition, community college, four-year universities, graduate school, apprenticeship programs and student loan payments.[4] They could also transfer any unspent funds to another eligible family member and make penalty-free withdrawals if students received scholarships.

With a 529-to-Roth rollover, they will be able to **extend the benefits of tax-free investing for a child's entire life** – from birth, through college and across retirement.[4]



$7,000 annual rollovers with 7% returns grows to $43,362 after 5 years.

Requirements for 529-to-Roth rollovers

- A 529 account must be open at least 15 years before the rollover.
- The Roth IRA receiving funds must be in the same name as the 529 account beneficiary. At this point, it's unclear if changing 529 beneficiaries would restart that 15-year clock.[6]
- A maximum of $35,000 can be transferred over a 529 beneficiary's lifetime.
- Any 529 contributions made within the last five years before a rollover are ineligible.
- Rollover amounts cannot exceed the annual IRA contribution limit (currently $6,500), minus any contributions made directly by a beneficiary outside the rollover. Any additional funds remaining in the 529 account could be transferred in future years.
- Beneficiaries must have income from a job to receive rollovers from a 529 plan, and the amount going into the Roth IRA cannot be more than their annual earnings.

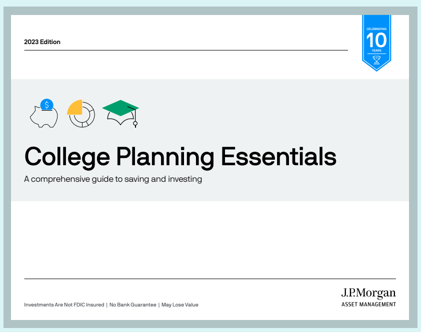
Qualified rollovers will be free from federal taxes and penalties, but state taxes may be due depending on where you live. Consult your financial and tax professionals for more information.

Action plan for today's changing college landscape

- **Meet with your financial professional** to review your college plan and prepare for changes to financial aid, student loan payments and 529 plans.
- **Get grandparents and others involved** to take advantage of new rules excluding their 529 account withdrawals from the federal financial aid formula.
- **Contribute with confidence;** Roth IRA rollovers will give 529 plan investors even more options for keeping money in the family and growing on a tax-advantaged basis.
- **Complete 529 plan contributions by December 31** to max out any 2023 state income tax deductions as well as annual exclusions from federal gift taxes.
- **Invest any year-end bonuses,** next spring's tax refunds and other extra cash to build up college funds without straining your normal budget.
- **Put 529 plan investing on auto-pilot** with recurring monthly transfers from a bank account, and increase those contributions as your income rises or expenses decline over time.

Want more college planning insights and ideas?

Explore College Planning Essentials, J.P. Morgan Asset Management's all-in-one guide to tuition costs, financial aid, 529 plans, investing strategies and more.



For more information

To learn more about pursuing college funding goals with a tax-advantaged 529 plan:

Consult your financial professional

Visit jpmorgan.com/collegesavings

[1] 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.
[2] TransUnion, *Implications of the End of Pandemic-Era Student Loan Forbearance*, July 2023.
[3] U.S. Department of Education, for loans dispersed between July 1 and June 30 of the following year.
[4] 529 plan – Earnings on federal non-qualified withdrawals may be subject to federal income tax and a 10% federal penalty tax, as well as any applicable state and local income taxes. Roth IRA – Withdrawals of investment earnings are tax free if the account owner is over age 59½ and the account has been open at least five years. Please consult a tax professional for additional details.
[5] J.P. Morgan Asset Management. For illustrative purposes only.
[6] The IRS has not provided guidance around the ability to change 529 plan beneficiaries and whether that change will restart the 15-year requirement.

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