Updated February 2023

Big changes for college investors

What's happening, what it means and what to do

Lingering aftereffects of the pandemic, challenging economic conditions and a changing financial aid landscape point toward higher college costs for families and a greater need to invest.

Student loan forgiveness is not a reason to stop investing, even if it survives legal challenges

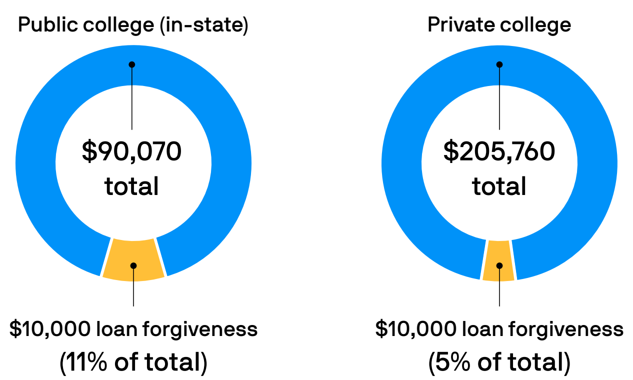
In August 2022, President Biden announced one-time student loan forgiveness of up to $10,000 per borrower, or $20,000 for lower-income students receiving at least one Pell Grant during college.

Today, those plans are on hold, pending a ruling from the U.S. Supreme Court. Oral arguments are scheduled for February 28, with a decision expected in June. In the meantime, the government has stopped accepting applications and is encouraging borrowers to sign up for updates here.

Even if the court upholds loan forgiveness, it wouldn't benefit families with pre-college children or change their need to invest. That's because ***it applies only to federal student loans held by the U.S. Department of Education with outstanding balances as of June 30, 2022***. It doesn't apply to future loans.

To factor loan forgiveness into your college plan, you would have to assume a future president or Congress takes similar action. Even then, loan forgiveness is unlikely to be a substitute for investing. Consider this:

Total four-year college costs, class of 2023[3]



Loan forgiveness would cover only a fraction of total college costs. For example, $10,000 in canceled debt wouldn't currently pay for even one semester at a public college.[1] To meet the remaining expenses, it would be cheaper for families to invest than borrow.

Higher earners wouldn't qualify. Under the proposed plan, loan forgiveness isn't available to individuals with income above $125,000 or married couples earning more than $250,000 in 2021 or 2020. These same higher earners rarely qualify for free need-based grants, leaving investments as a primary source of college funding.

Postponing or stopping investments in hopes of loan forgiveness could be costly. It gives your investments less time to grow, which may result in smaller college funds and higher out-of-pocket costs – especially if tuition prices continue rising (see next page).

Any future loans not forgiven may charge higher interest rates. As the Federal Reserve raises interest rates to fight inflation, college borrowing costs are rising too. In the past year alone, rates on federal undergraduate loans jumped from 3.73% to 4.99%. Rates on graduate student and parent loans also increased, from 6.28% to 7.54%.[2]

Lastly, taxes might be another consideration. Although student loan forgiveness would be tax free at the federal level, some states may treat the canceled amount as taxable income. Consult a tax professional about your individual situation.

Federal student loan payments still on hold

The Biden administration has extended the COVID-era payment freeze that was due to expire at year-end 2022. The new deadline is 60 days after either the Supreme Court's final decision on loan forgiveness or June 30, 2023, whichever comes first.

The administration is also proposing new repayment rules that would take effect when the freeze ends. If you have outstanding federal debt, consider contacting your loan servicer to discuss your options.

College costs are rising again... and it's likely to continue

After a two-year slowdown during COVID, college prices rose faster in 2022-23.[1] Here's why the trend is likely to continue:

Inflation. Colleges are passing along higher food, energy and payroll costs to students through increases in not only tuition, but also room/board and meal plans.

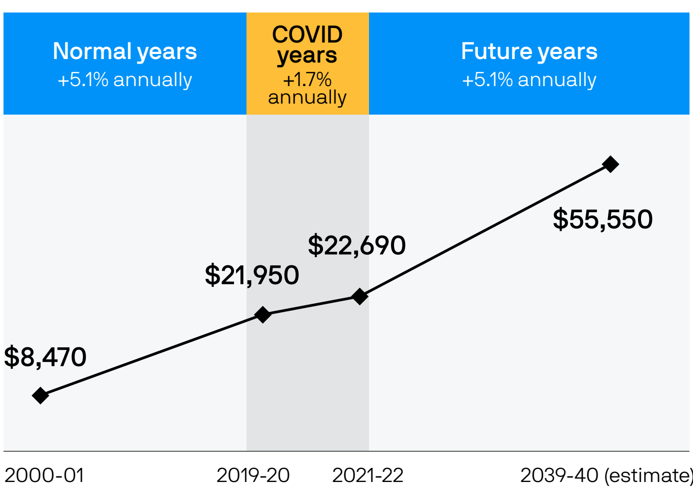
Budget shortfalls. Colleges lost an estimated $183 billion during the pandemic due to declining revenue and increased expenses.[4] Federal emergency spending under the CARES Act, American Rescue Plan and other COVID-related measures provided some temporary relief. However, colleges with budget gaps may need to raise prices as those pandemic funds dry up.

Slowing economy. College costs typically spike during and for years after recessions. Why? State funding for public institutions declines and demand for college rises among people seeking to further their education when jobs are scarce.

Changing demographics. As the population of college-age Americans continues to shrink, schools are spending more to recruit students and enhance campus experiences.

High demand for expensive colleges. The latest admissions cycle saw nearly half of all applications going to private colleges that tend to cost more.[5]

College prices may start rising rapidly again
One-year cost at in-state public university[6]



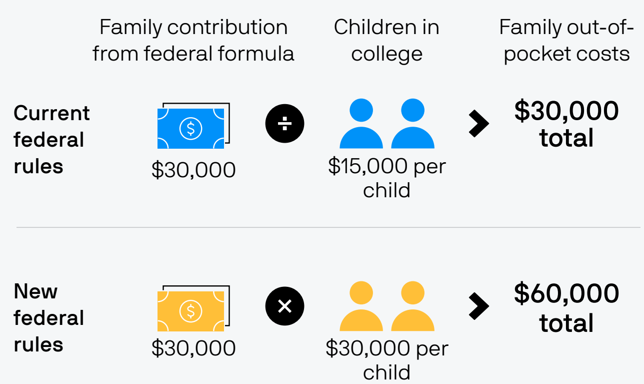
New rules will reduce financial aid for many families

Federal financial aid eligibility is based on the difference between what college costs and what the government expects you to pay. Under current rules, your share is ***divided by all students*** in your family enrolled at the same time. Under new rules taking effect July 1, 2023, your share will be ***multiplied by each student***, essentially doubling or tripling your out-of-pocket costs if two or three children attend at once.[7]

Example: The Smiths have two kids in college and a family contribution of $30,000 based on their federal aid application. They would pay $15,000 per student today, but $30,000 per student next year. This change will mostly affect higher-earning families, especially if:

- They have multiple kids within four years of each other.
- Students take gap years or more than four years to graduate, increasing the chances of college overlapping.

The Smith's out-of-pocket college costs[8]



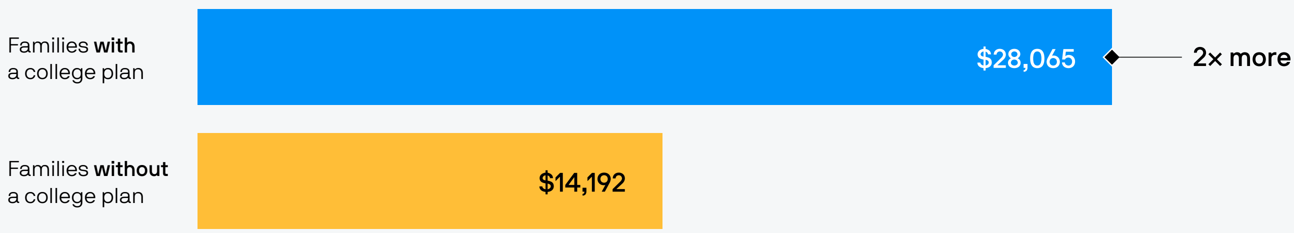
Good news for grandparents and others

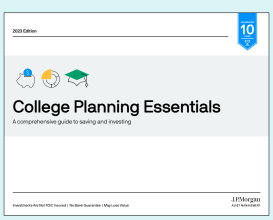
In 2023 and beyond, withdrawals from 529 college savings plans owned by grandparents, aunts, uncles and other non-parents will have no impact on federal financial aid under new rules. This allows family and friends to invest for college without negatively affecting loved ones, while also receiving special gift and estate tax benefits only available in 529 plans.

Action plan for 2023 and beyond

- **Stick to your college plan and investment schedule;** don't get derailed by student loan forgiveness or short-term market moves.
- **Contribute to 529 plans early in the year** to give your investments more time to work tax efficiently.
- **Invest upcoming tax refunds** and other extra cash to build college funds without disrupting your normal budget.
- **Get grandparents and others involved** to take advantage of new rules excluding their 529 accounts from the federal financial aid formula.
- **Put current market volatility to work for you** by investing when prices are temporarily down and participating in any recoveries.
- **Set up automatic monthly 529 plan contributions** and increase them as your income rises or expenses decline.

Meet with a financial professional to create or review your college plan
Studies show that families with a plan save twice as much for college as those without a plan.[9]





Want more college planning insights?

Explore the newly updated 2023 College Planning Essentials, our all-in-one guide to tuition costs, financial aid, investing strategies, 529 plans and more.

[1] The College Board, *Trends in College Pricing*, 2022. Based on average tuition, fees, and room and board at an in-state, four-year public university.
[2] U.S. Department of Education, for loans dispersed between July 1, 2021–June 30, 2022, versus July 1, 2022–June 30, 2023.
[3] The College Board, *Trends in College Pricing*, 2019-2022. Average tuition, fees, and room and board for public college reflect four-year, in-state charges.
[4] *The Chronicle of Higher Education*, February 2021.
[5] Common App, as of December 2022 for first-year applicants.
[6] The College Board, *Trends in College Pricing*, 2000, 2019 and 2021. Based on average tuition, fees, and room and board at an in-state, four-year public university.
[7] Congressional Research Service, *The FAFSA Simplification Act*, August 4, 2022, page 7.
[8] 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.
[9] Sallie Mae, *Higher Ambitions: How America Plans for Post-secondary Education*, 2020.

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Visit www.ny529advisor.com
Call 1-800-774-2108 (8am–6pm ET, M–F)

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