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Thinking About Upcoming College Expenses?

As you start the New Year, you may want to start planning ahead for big expenses, like college. Figuring out how to manage college costs may seem overwhelming, but proper planning can ease the stress. Here are some options available to assist with saving and paying for college.

Free Application for Federal Student Aid (FAFSA)

The FAFSA is the form the federal government, states, colleges and other organizations use to award financial aid. Submitting it is your key to accessing grants, scholarships, work-study programs and federal student loans. Some states and schools have limited funds, so you should apply early. Also, the FAFSA must be submitted each year the student is in college. FAFSA deadlines vary depending on the state you live in, visit <https://studentaid.ed.gov/sa/fafsa> to find when your state's deadline is.

Sorting through the options for financial aid to pay for college can be complicated. Financial aid offices at different schools may use different terminology to describe the grants, scholarships, work-study programs, and loans that you could be offered. Make sure you do your homework to understand which funds you will need to repay after you graduate and which funds you will not need to repay.

Grants and Scholarships

Grants and scholarships are financial aid that does not have to be repaid. Grants are often based on need, while scholarships are usually based on merit. Grants and scholarships can come from the federal government, state governments, colleges or career schools, or a private or nonprofit organization. It is important to understand the requirements of scholarships or grants that you accept. For instance, some scholarships and grants require you to maintain a certain grade point average or academic standing. Make sure you know what the requirements are and that you are able to meet them.

Federal Work-Study

Federal Work-Study provides part-time jobs for undergraduate and graduate students with financial need, allowing them to earn money to help pay education expenses. The program encourages community service work and work related to the student's course of study.

Here's a quick overview of Federal Work-Study:

- It provides part-time employment while you are enrolled in school.
- It's available to undergraduate, graduate, and professional students with financial need.
- It's available to full-time or part-time students.
- It's administered by schools participating in the Federal Work-Study Program. Check with your school's financial aid office to find out if your school participates.

Student Loans

A loan is money you borrow and must pay back with interest. If you decide to take out a loan, make sure you understand who is funding the loan and the terms and conditions of the loan.

Student loans can come from the federal government, private sources such as a bank or financial institution, or other organizations.

The U.S. Department of Education's federal student loan program is the William D. Ford Federal Direct Loan (Direct Loan) Program. Under this program, the U.S. Department of Education is your lender.

There are four types of Direct Loans available:

- **Direct Subsidized Loans** are loans made to eligible undergraduate students who demonstrate financial need to help cover the costs of higher education.
- **Direct Unsubsidized Loans** are loans made to eligible undergraduate, graduate, and professional students, but eligibility is not based on financial need.
- **Direct PLUS Loans** are loans made to graduate or professional students and parents of dependent undergraduate students to help pay for education expenses not covered by other financial aid. Eligibility is not based on financial need, but a credit check is required.
- **Direct Consolidation Loans** allow you to combine all of your eligible federal student loans into a single loan with a single loan servicer.

For more information about Direct Loans, please visit the U.S. Department of Education's webpage at <https://studentaid.gov/understand-aid/types/loans>.

Savings Bonds

Savings bonds can be another way to save for college over time. The savings bond education tax exclusion permits qualified taxpayers to exclude from their gross income all or part of the interest paid upon the redemption of certain eligible bonds. In order to obtain this tax benefit, the bonds must be issued after 1989 and both the principal and interest from the bonds must be used to pay for qualified higher education expenses at an eligible institution.

Qualified educational expenses include:

- Tuition and fees (such as lab fees and other required course expenses).
- Expenses that benefit you, your spouse, or a dependent for whom you claim an exemption.

- Expenses paid for any course required as part of a degree or certificate-granting program.
- Expenses paid for sports, games, or hobbies qualify only if part of a degree or certificate program.

It's important to note that the costs of books or room and board are not qualified expenses.

The bonds that are considered eligible for education tax exclusion are Series EE and Series I. An EE savings bond is a U.S. Treasury security. It earns interest for up to 30 years. EE bonds issued after May 2005 earn a fixed rate of interest. When you buy the bond, you know the rate of interest it will earn. You may only buy them in electronic form, via TreasuryDirect at <https://www.treasurydirect.gov/indiv/indiv.htm>. A Series I savings bond is a security that earns interest for up to 30 years based on both a fixed rate and a rate that is adjusted twice a year for inflation. You may buy them in electronic form, via TreasuryDirect, or in paper form using your federal income tax refund. For more information about savings bonds, please visit the Treasury webpage at <https://www.treasurydirect.gov/tdhome.htm>.

Qualified Tuition Plan

A Qualified Tuition Plan, also known as a 529 Plan, is a plan established by a state or school, which allows you to either prepay or save to pay education-related expenses. Savings in a 529 Plan grow free from federal income tax, and withdrawals remain tax-free when used for qualified higher education expenses. The earlier you start contributing to the 529 Plan, the more time you will have for the balance to grow.

For more help or information, go to www.fdic.gov or call the FDIC toll-free at **1-877-ASK-FDIC (1-877-275-3342)**. Please send your story ideas or comments to Consumer Affairs at consumeraffairsmailbox@fdic.gov

There are two types of 529 Plans:

Prepaid Tuition Plans: These plans allow participants to pre-purchase future tuition at a predetermined rate today. Typically, an account owner will purchase somewhere between one and four years of tuition for a young child, and when that child reaches college age, the plan pays out based on tuition rates at that time. Investment performance is often based upon tuition inflation. Prepaid plans may be administered by states or higher education institutions.

College Savings Plans: College savings plans are different in that your account earnings are based upon the market performance of the underlying investments, which typically consist of mutual funds. Savings plans may only be administered by states. Most 529 savings plans offer a variety of age-based investment options where the underlying investments become more conservative as the beneficiary gets closer to college age. In addition, many savings plans offer a FDIC or NCUA-insured money market, certificate of deposit, or guaranteed option designed to protect an investor's principal while providing for investment growth.

Learn more about Qualified Tuition Plans at <https://www.irs.gov/taxtopics/tc313>.

For more information about federal student aid, visit www.StudentAid.gov or call the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243; TTY for the deaf or hard of hearing: 1-800-730-8913).

