The ABCs of Education Savings

Helping Create a Plan That Makes the Grade

Not a Deposit     Not FDIC Insured     Not Guaranteed by the Bank     May Lose Value     Not Insured by any Federal Government Agency
02 Acquaint
Understand the Education Savings Landscape

10 Build
Considerations in Building a Plan That Fits Your Needs

35 Care
How to Care for the Plan and Help Maintain Consistent Saving
Acquaint
Understand the Education Savings Landscape
Education Is an Expense That Should Be Planned For

Education Tends to Increase Future Earnings Potential

Tuition Cost May Grow Faster Than Your Student

Projected four-year college costs today versus 18 years from now.

Tuition and fees are expected to increase at a rate of 3%-5% annually. This could mean an increase of $260,935 in tuition from the time your student is born until the time they graduate high school.

Sources: College Board, “Trends in College Pricing 2019,” 2019 and Invesco, Ltd, 2019. This scenario shows calculations based on 4 years at a private college and includes tuition, room and board, and fees, and assumes an average of 4.5% increase per year. The hypothetical examples are for illustrative purposes only and do not predict or depict the performance of any specific investment. Actual results may vary.
Build a Plan

Careful planning may help your savings grow.

People who say they have a college savings plan, on average, borrow 18% of their total cost of college, while non-planners borrow 31%.

44% of American families say they have a plan to save for education.

18% vs. 31%

Families that plan for education savings borrow significantly less than non-planners.

### Assess Your Financial Health

Calculate your current savings, spending habits and potential future expenses.

<table>
<thead>
<tr>
<th>Plan</th>
<th>Invest</th>
<th>Adjust</th>
<th>Mature</th>
<th>Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Identify personal goals and associated costs.</td>
<td>+ 529 college savings plan.</td>
<td>+ Decide if you'd like to partner with an financial professional.</td>
<td>+ Learn about markets, asset classes and their roles.</td>
<td>+ Develop a strategy to spend wisely from your education savings.</td>
</tr>
<tr>
<td>+ Identify any professional goals.</td>
<td>+ Coverdell Education Savings Account.</td>
<td>+ Identify and address important life events.</td>
<td>+ Learn about market trends and their potential impacts.</td>
<td>+ Think about spending in both the short term and long term.</td>
</tr>
<tr>
<td>+ Determine how education savings fit into legacy planning.</td>
<td>+ Trust.</td>
<td>+ Schedule regular reviews.</td>
<td>+ Attend educational seminars.</td>
<td>+ Only spend what you need to—think about factors such as financial aid.</td>
</tr>
</tbody>
</table>
## Resources to Help You Start Planning

### “Do it yourself” vs. “do it with help” options.

<table>
<thead>
<tr>
<th>The Internet</th>
<th>Government resources</th>
<th>Traditional resources</th>
<th>Financial Professional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Many websites provide a lot of great resources and tips: + SavingForCollege + NerdWallet + FinAid</td>
<td>Department of Education Securities and Exchange Commission (SEC) Federal Student Aid</td>
<td>The research section of the library contains information on how to get started. High school guidance counselors may provide resources on education and vocational training.</td>
<td>A financial advisor can help build education into your holistic financial plan. Visit <a href="http://brokercheck.org">brokercheck.org</a> to find an advisor.</td>
</tr>
</tbody>
</table>

SallieMae reports:
- How America Saves for College
- How America Pays for College

The organizations listed to the right are not affiliated with Invesco or its subsidiaries.
Acquaint Yourself with the Education Savings Landscape

Putting it all together.

**Education costs can be manageable with a plan**
Identify your education savings goals early to help lessen the burden.

**Use all available resources**
There are many resources—both in-person and online—that can help you get started.

**Build a plan**
Having a plan can lead to increased success in reaching your education savings goal. The end result of your plan may not be to fully fund your student’s education, but remember that every dollar saved today is a dollar less to borrow and can help pay for future expenses.
Considerations in Building a Plan That Fits Your Needs
Families Have Several Options to Save for Education

As shown in the data to the right, Americans save for college in a number of ways. By using these options (either alone or in combination), families can help plan for future education expenses.

Source: SallieMae, "How America Saves for College," 2018. Personal savings is defined as a general savings account, piggy bank, Bitcoin, checking accounts, CD, investment account, juvenile life insurance and US savings bonds.
Different Options, Different Tax Treatments

You have options when saving for education. Some of these options may work better than others, depending on your situation.

Different Options, Different Tax Treatments

529 college savings plans.

<table>
<thead>
<tr>
<th>Tax implications</th>
<th>Account control</th>
<th>Financial aid impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax-free growth and tax-free withdrawals as long as they are used for qualified education expenses.¹</td>
<td>Owner-driven account.</td>
<td>Parental assets: 5.6% weight in FAFSA calculations.</td>
</tr>
</tbody>
</table>

Source: Federal Student Aid, Department of Education.
https://studentaid.ed.gov/sa/fafsa/filling-out
1 Visit IRS.gov for more information. 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. Tax and other benefits are contingent on meeting other requirements and certain withdrawals are subject to federal, state, and local taxes.
Different Options, Different Tax Treatments

Individual Retirement Accounts (IRAs).

1 Visit IRS.gov for more information. 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. Tax and other benefits are contingent on meeting other requirements and certain withdrawals are subject to federal, state, and local taxes.

### Tax implications

<table>
<thead>
<tr>
<th>Traditional IRA (Pre-tax)</th>
<th>Roth IRA (After-tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Tax-deductible contributions.</td>
<td>+ After-tax contributions.</td>
</tr>
<tr>
<td>+ Tax-free growth.</td>
<td>+ Tax-free growth.</td>
</tr>
<tr>
<td>+ Taxed on distributions.</td>
<td>+ Possible tax-free withdrawals.¹</td>
</tr>
<tr>
<td>+ Penalty-free withdrawals for education expenses for you, your spouse, your child, or your grandchild.¹</td>
<td>+ Penalty-free withdrawals for education expenses for you, your spouse, your child, or your grandchild.¹</td>
</tr>
</tbody>
</table>

### Account control

Parental-owned account.

### Financial aid impact

Retirement assets are not counted in FAFSA calculations; however, distributions could spike income.
Different Options, Different Tax Treatments

Uniform Gift to Minors Act (UGMA)/Uniform Transfers to Minors Act (UTMA).

<table>
<thead>
<tr>
<th>Tax implications</th>
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<th>Financial aid impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher balances could potentially be tax unfriendly.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yield control of account to the child at age of majority. Account may be invested in various vehicles.</td>
<td></td>
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</tr>
<tr>
<td><strong>Student's assets:</strong> 20% weight in FAFSA calculations.</td>
<td></td>
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</tbody>
</table>


1 Visit IRS.gov for more information.
Different Options, Different Tax Treatments

Coverdell Education Savings Accounts.

<table>
<thead>
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<th>Tax implications</th>
<th>Account control</th>
<th>Financial aid impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax-free growth, but $2,000 maximum annual contribution limit</td>
<td>Remains a parental-owned account until the beneficiary turns 30 years old.</td>
<td>Parental assets: 5.6% weight in FAFSA calculations.</td>
</tr>
</tbody>
</table>

Source: Federal Student Aid, Department of Education.  
https://studentaid.ed.gov/sa/fafsa/filling-out  
1 Visit IRS.gov for more information.
Saving in the Right Places Can Help Your Student Succeed

Parents who save in a 529 college savings plan typically save more than parents using other types of accounts.

529 College Savings Plans: The Facts

Two types of 529 plans to fit your preferences and savings goals.

Traditional 529 College Savings Plans
- Essentially an investment account\(^1\)
  + Authorized by individual states.
  + Earnings not taxed when spent on qualified educational expenses.\(^2\)
  + Can be used at any accredited college, including some overseas.

Prepaid 529 College Savings Plans
- Pay tomorrow’s tuition at today’s price
  + Only valid for specific issuing state or participating institution.
  + There are no tax implications because money is not invested, “units or semesters” or “tuition certificates” are being purchased.
  + These “units or semesters” or “tuition certificates” are bought at today’s prices and can be used to pay for education at a future date.

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1. Subject to market risk.
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. Tax and other benefits are contingent on meeting other requirements and certain withdrawals are subject to federal, state, and local taxes.
Traditional 529 College Savings Plans: Designed for Education Savings

Traditional 529 plans have potential advantages over other savings vehicles when it comes to saving for education.

Traditional 529 college savings plan features

1. Accepted at most schools nationwide
2. Plans are flexible
3. Tax advantages
4. Anyone can open an account
5. Account holder maintains control
Prepaid 529 College Savings Plans: Pay Tomorrow’s Tuition at Today’s Prices

Prepaid 529 plans can help alleviate concerns surrounding market volatility or future tuition increases.

<table>
<thead>
<tr>
<th>Prepaid 529 college savings plan features</th>
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<tbody>
<tr>
<td>1</td>
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<td>2</td>
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<td>3</td>
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<tr>
<td>4</td>
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<tr>
<td>5</td>
</tr>
</tbody>
</table>
Tax-Advantaged Plans, Such as 529 College Savings Plans, Have Potential Benefits

Take a look at two families—Tara’s and Oliver’s—and how the different ways they save affected how much they had by the time Tara and Oliver were ready to graduate high school.

Both Tara and Oliver’s families started with a $10,000 balance in their accounts: Tara in a tax-advantaged 529 college savings plan and Oliver in a taxable account.

Source: Invesco, 2020. This hypothetical illustration assumes an initial investment of $10,000 and a 5% annual rate of return. The taxable account assumes a 28% federal and 5% state tax rate. The illustration does not represent the performance of any specific account or investment and does not reflect any plan fees or sales charges that may apply. If such fees or sales charges were taken into account, returns would have been lower.
Beyond education savings, 529 college savings plans can help families leave a legacy

When considering whether to use a 529 plan in your estate plan, keep in mind the following key points:

**Contributions**
An individual may contribute up to $15,000 a year ($30,000 for a married couple) per beneficiary without triggering the federal gift tax.¹

**Accelerated gifting**
Special gift and estate tax treatment allows an individual to contribute up to $75,000 ($150,000 for a married couple) in one lump sum, per beneficiary, free of federal gift taxes (i.e., five times the annual gift tax exclusion), under a provision known as "accelerated gifting."²

**Tax planning**
For tax purposes, the Internal Revenue Service considers assets held in a 529 college savings plan as a completed gift and therefore treats them as the beneficiary’s assets and NOT the account owner’s.

**Tax-free withdrawals²**
529 college savings plan contributions and investment earnings may be withdrawn federal income tax-free if the money is used for Qualified Higher Education Expenses (QHEE).²

**Control**
The 529 college savings plan owner maintains complete control over account assets and is allowed to make beneficiary changes or even discontinue the account and take the money back.²

¹ The gift-tax exclusion applies, provided the 529 account owner makes no other gifts to the beneficiary during a five-year period. Contributions between $15,000 and $75,000 ($30,000 and $150,000 for married couples filing jointly) made in one year may be prorated over a five-year period without subjecting the donor(s) to federal gift tax or reducing his/her federal unified estate and gift tax credit. If an individual contributes less than the $75,000 maximum ($150,000 for married couples filing jointly), additional contributions may be made without subjecting the donor to federal gift tax, up to a prorated level of $15,000 ($30,000 for married couples filing jointly) per year. Gift taxation may result if a contribution exceeds the available annual gift tax exclusion amount remaining for a given beneficiary in the year of contribution. If the account owner dies before the end of the five-year period, a prorated portion of contributions between $15,000 and $75,000 ($30,000 and $150,000 for married couples filing jointly) made in one year may be included in his or her estate for estate tax purposes. Please consult your tax and/or legal advisor for further guidance.

² Non-qualified withdrawals from a 529 plan are subject to income tax and a possible 10% federal penalty on the earnings portion of the account. 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. Tax and other benefits are contingent on meeting other requirements and certain withdrawals are subject to federal, state, and local taxes.
**Financial Aid: What You Need to Know**

Financial aid helps fill the gap between what school costs and what students are expected to pay.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>1</td>
<td>Many undergraduates receive some type of financial aid.</td>
</tr>
<tr>
<td>2</td>
<td>Aid is based on two factors: student merit and financial need.</td>
</tr>
<tr>
<td>3</td>
<td>Parents’ income is the most heavily weighted factor in determining financial aid.</td>
</tr>
<tr>
<td>4</td>
<td>Students are required to repay education loans (plus interest).</td>
</tr>
<tr>
<td>5</td>
<td>Grants and/or scholarships are “free money”—they do not need to be repaid.</td>
</tr>
</tbody>
</table>
**Understanding Financial Aid**

**Important terminology.**

<table>
<thead>
<tr>
<th><strong>FAFSA</strong></th>
<th>+ Helps to determine amount of federal aid families are eligible for.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Free Application for Federal Student Aid</strong></td>
<td>+ Used by many public, private, community and vocational schools to calculate financial aid packages (the amount of aid—whether through grants, scholarships, or loans—offered by a school to a student).</td>
</tr>
<tr>
<td><strong>COA</strong></td>
<td>+ Reflects the cost of attending a specific school.</td>
</tr>
<tr>
<td><strong>Cost of attendance</strong></td>
<td>+ Includes tuition, room, board, and related fees and expenses.</td>
</tr>
<tr>
<td><strong>EFC</strong></td>
<td>+ Amount a family is expected to contribute to education costs each year.</td>
</tr>
<tr>
<td><strong>Expected family contribution</strong></td>
<td>+ Determined by FAFSA submission, not dependent on a specific school’s COA.</td>
</tr>
<tr>
<td></td>
<td>+ Cost of attendance - EFC = Financial need.</td>
</tr>
<tr>
<td></td>
<td>+ Keep in mind: EFC does not always reflect a family’s actual ability to pay.</td>
</tr>
</tbody>
</table>

**Financial aid eligibility** = **COA** + **EFC**

Source: Federal Student Aid, Department of Education.
https://studentaid.ed.gov/sa/types
With FAFSA, Not All Money Is Considered Equally

Income and assets are considered differently when determining EFC.

For illustrative purposes only. The EFC calculation factors in the following financial resources that Tara’s family has:
1. 22%-47% of Tara’s parents’ income (based on a sliding income scale and after certain allowances).
2. 2.6%-5.64% of her parents’ nonretirement assets (including 529 plans, based on a sliding income scale and after certain allowances).
Assets such as retirement accounts and real estate are excluded from the FAFSA formula when calculating EFC. A full list of excluded assets is available at irs.gov.

Example—Tara’s family:
+ Tara and her family have saved diligently for Tara to attend culinary school.
+ Her family has $75,000 in income and $100,000 in nonretirement assets.
+ Assuming Tara has not made any contributions, what can Tara’s family do to bridge the gap between what they are expected to pay and what they can actually pay?

Keep in mind:

<table>
<thead>
<tr>
<th>Parents’ income</th>
<th>Parents’ assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money earned</td>
<td>Excluding retirement savings</td>
</tr>
<tr>
<td>$75,000</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income contribution + Asset contribution + Student contribution</th>
<th>= Expected family contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>$35,250 + $5,640 + $0</td>
<td>$41,890</td>
</tr>
</tbody>
</table>

Example—Tara’s family:

Example—Tara’s family: $41,890
Maximizing Financial Aid

Keep these points in mind when applying for financial aid.

- **Always** submit a FAFSA form (you may be unaware of all available aid).
- The way the system works today may not be the same when your future student graduates from high school.
- Saving reduces your reliance on the financial aid system.
- Savings and investments held by a student’s parents count far less than income in calculating EFC.
- Future financial aid eligibility is not necessarily affected by your current investment decisions.

Federal Student Loans

Consider these points when applying for financial aid.

Source: StudentAid.gov. Loan information based on dependent student status. For illustrative purposes only. This does not apply to private loans. Individual private lenders will provide their own rules on limits.
Student Loans

Loans can have a large impact on a student's financial future, so it's important to start building a savings plan early to minimize borrowing.

Loan-focused strategy

Oliver's family: Loan-focused education funding strategy.

Assume Oliver's education costs $100,000. Relying on loans, Oliver's funding strategy may look like this:
Saving Now Means Borrowing Less Later

Start now to help relieve the burden of debt.

**Savings-focused strategy**

**Tara’s family:** Savings-focused education funding strategy.

Assume Tara’s education costs $100,000 and her family saved a portion of that in a 529 college savings plan. This reduced the amount of loans she would have to take, but did not create a large reduction in the amount of financial aid received.
Potential to Maximize Financial Benefits During and After

Putting money away now may help you—and your student—later.

1. Put money away now.
2. Money may grow if invested.
3. The more you save/invest now, the less your future student may have to find later.
4. After graduation, your student may have less debt and can start their own savings earlier.
Retirement Savings Are Not Education Savings

Consider these four points before using retirement accounts to fund education expenses:

1. Retirement savings are meant to be long-term strategies.
2. Withdrawing funds during your prime savings years may reduce the amount you have for your retirement.
3. Borrowing from retirement accounts comes with stipulations (e.g., taxes and potential penalties) that may not make it the best option for funding college.
4. Distributions from retirement accounts such as IRAs can actually hurt the amount of financial aid your student may be eligible for.
Saving for Both Education and Retirement Can Benefit in the Long Term

Take a look at Tara’s family’s strategy.

For illustrative purposes only.
Source: Invesco, 2018. This chart is for illustrative purposes only. These hypothetical illustrations do not represent the performance of any specific investment. Investment contributions are based upon an average annual contribution of $7,500, with $3,750 going into a 529 plan and $3,750 going into retirement savings vehicles for years 0–18, then $7,500 going into retirement savings vehicles for years 19–31. Growth is determined by a 5% annual rate of return. Systematic investing does not assure a profit and does not protect against loss in declining markets. Before investing, investors should evaluate their long-term financial ability to participate in such a plan.
Education Savings Now May Lead to a More Comfortable Retirement

Putting money away now may help you—and your student—later.

Source: Invesco 2018. This chart is for illustrative purposes only. These hypothetical illustrations do not represent the performance of any specific investment. Retirement savings assumes $5,000 in contributions per year with a 6% rate of return. Illustration is based off of loan repayments for each student. College costs represent four years of tuition and fees with a 4.5% inflation growth in cost each year. Starting salary for both individuals after graduation is $40,000. Tara’s payments represent 30% of her annual income devoted to loan payments, and Oliver’s represents 50%.
Having a Plan Is Better than No Plan

Putting it all together.

**Understand your options**
- There are many ways to go about saving for college.
- Some plans are built for college savings and have potential benefits in the financial aid process.

**Maximize financial aid**
- Understanding how financial aid works and the detriment to not saving can focus your plan on saving a little over time.

**Review the costs before withdrawing from retirement accounts**
- This may lessen your chance of a dignified retirement.
Care
How to Care for the Plan and Help Maintain Consistent Saving
Plan Features to Help Maintain a Consistent and Dedicated Savings Habit

Automatic Investment Programs (AIPs) allow for regular contributions directly to your account.

For illustrative purposes only.
Saving a Little Can Save a Lot

Be diligent about saving a little bit for education savings.

Consider saving one coffee a day...or month...It adds up! Put that money directly into savings to take advantage of potential growth. Take a look at the growth potential if you invested the money in a 529 college savings plan and it grew over 18 years...

1 Source: SavingForCollege.com. Weekly cost is based on a 5-day business week.
2 Source: SavingForCollege.com. This chart is for illustrative purposes only. These hypothetical illustrations do not represent the performance of any specific investment. Estimated annual investment return of 6% each year for 18 years. Assumes $5 for a cup of coffee and $15 for dinner. Weekly cost is based on a 5-day business week.
All four scenarios show out-of-pocket costs based on an estimated $100,000 of a four-year college education at a public university. These scenarios also assume the receipt of approximately $25,000 in financial aid, which will vary depending upon how much is accumulated in a tax-advantaged savings account. The loan portion of each column is calculated to include a fixed interest rate of 6.25% to be repaid over 180 months as defined by Sallie Mae (that’s like paying off a 15-year mortgage) following graduation with 54 monthly payments of $25 made during college. All savings in the tax-advantaged account depicted in this chart assume 5% monthly compounded growth from the beneficiary’s birth until age 18. The hypothetical examples are for illustrative purposes only and do not predict or depict the performance of any specific investment. Actual results may vary.

Any Amount Helps

Saving the entire tuition amount can seem daunting, but any amount you save will help reduce future student debt.
The Power of Compounding

Contributions—both large and small—may benefit from long-term compounding of growth.

This chart is for illustrative purposes only. These hypothetical illustrations do not represent the performance of any specific investment. Assumes 5% growth on account balances every year over 5, 10, and 18 years. Compounded growth is defined as multiplying the account balance of any given year by 1.05 to show growth. There is no compounded growth in the first year of contributions.
Investment Features to Help Your Savings Grow

Understanding the different ways money can be invested.

- **Age-based portfolios**: Use your beneficiary’s age to build a portfolio that automatically adjusts to become more conservative over time as the student approaches high school graduation.

- **Risk-based**: Based on your preferred risk tolerance, you have the ability to choose whether you want to take on more or less stock exposure.

- **Individual investments**: A variety of fund portfolios with varying risk levels are available for you to choose and build your own portfolio.

- **Asset allocation**: Asset allocation seeks to balance your investments by creating a mix customized to your preferences and the level of risk you’d like to take. You pick and choose your mix to create your own unique portfolio.
Care for Your Educational Savings Plan and Help It Grow

Putting it all together.

**Saving, even a little, over time may make a difference in the long run**

+ Being able to put a little bit away over time can add up with investing benefits such as compound growth.
+ Features such as automatic investing can help you budget and put a regular amount away.

**Understanding your investment options can help**

+ Understanding the ways your money can be invested may help you make more informed decisions and may make your money go further.

**Act now! Plan smart!**

+ Once you have a plan in place you are comfortable with, do not delay in getting started. The more you save now, the less you may need to borrow later.
Disclosures

Diversification does not guarantee a profit or eliminate the risk of loss.

This information is provided for general educational purposes only and is not to be considered legal or tax advice. Investors should consult with their legal or tax advisors for personalized assistance, including information regarding any specific state law requirements.

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