

SAVING FOR COLLEGE: THE WHY, WHEN, AND HOW

A GUIDE OF COLLEGE SAVINGS PRODUCTS FOR TEXANS



RAISE Texas
Building Financial Success

ABOUT THE AUTHOR



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About RAISE Texas

RAISE Texas is a statewide network of non-profit organizations, for-profit corporations, and public institutions working to support and expand asset-building activities in Texas, with a particular focus on low- and moderate-income areas. Our mission is to advance policies and programs that foster financial success and economic stability for all Texans. In 2008, RAISE Texas became the first independent 501(c)(3) state asset-building coalition in the country and is recognized as a leader in the asset building field nationally. For more information about RAISE Texas, visit www.raisetexas.org.

OpportunityTexas is a project of RAISE Texas, in partnership with the Center for Public Policy Priorities, to move Texas families toward greater economic opportunity through education, savings and financial capability. This project directly supports RAISE Texas' work on college savings, financial education, and college completion. For more information on OpportunityTexas, visit www.opportunitytexas.org.

Acknowledgements

RAISE Texas would like to recognize our strong partnership with the Federal Reserve Bank of Dallas and their continued support in our efforts to create and spread crucial resources, tools, and programs statewide. We want to express our appreciation for their printing of this new guide to help Texas families start saving for college today!

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A NOTE FROM RAISE TEXAS

Now is the time to start saving for your child's college education! With the cost of college rising each year, saving even \$25 per month can make a difference in reaching your goal of helping to pay for your child's future college dreams. **This guide discusses WHY to save, WHEN to save, and HOW to save for college.**

While there are many excellent choices of 4-year colleges and universities to attend in Texas and across the country, there are also some excellent technical and vocational training schools and community colleges at a reasonable cost that can offer skills and certifications for good paying jobs. In this guide, **college is defined as any post-secondary educational institution or accredited program (after high-school completion) including: technical, vocational, community college, 4-year colleges and universities and beyond.**

The savings options discussed in this guide are available for anyone that is raising a child in Texas and wants to provide that child with a college education. Grandparents, parents or other family members or friends can help reach your savings goal by giving financial gifts to the college savings account on behalf of the child.

When beginning to save for your child's future education, you have a number of savings choices. **This guide will provide you with the key facts and information on the available savings options for your child's college education so you can start saving for college now!**



Research findings suggest that "...a child with school savings of \$500 or more is about five times more likely to graduate from college than a child with no savings account."¹

This guide offers a general overview of the college savings products that may be available, but is not intended to replace financial advice. Specific product details may change over time, or may not always be offered. Please consult the financial institution, savings program, or a financial professional (such as a financial advisor) directly to ask any questions and to make sure the product fits your goals. For more information, see the resources at the end of this guide or visit the RAISE Texas website at

[<www.raisetexas.org/resources/collegesavingsresources>](http://www.raisetexas.org/resources/collegesavingsresources)

The information in this guide is provided solely by RAISE Texas, as are any omissions and errors.

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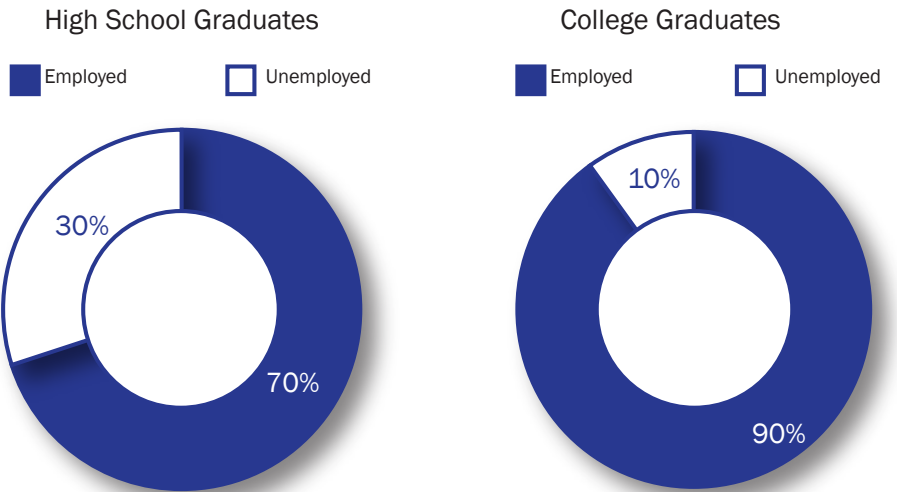
WHY SAVE FOR COLLEGE?

Reason #1: More Career Opportunities

A college education can give your child options in a future career. Today, “more than 86 percent of all jobs in the [labor] market require at least a two-year degree”².

A college education at a technical school, vocational school, community college, or a 4-year university can make your child more qualified for higher-paying jobs than those job applicants with only a high school diploma or GED. Having a college degree also allows your child to consider a variety of careers that are not obtainable without a degree.

Due to the variety of job opportunities with a college degree or certification, college graduates are more likely to be employed than high school graduates, both now and in the future. “65% of jobs in 2020 will require college education or training.”³



▶ “65% of jobs in 2020 will require college education or training.”³

(Endnote 4)

The skills and knowledge that your child acquires in college can be transferred across jobs, and offers a variety of career options. Below is a list of skills taught in Texas colleges that can lead to different job opportunities.

Skill	Job
Critical thinking	Paralegal, Police Detective, Marketing Analyst
Computer skills	Web Administrator, Graphic Designer, Creative Director
Writing and editing	Public Relations Specialist, Policy Researcher
Technical knowledge	Automotive Master Technician, Accounting Specialist, Engineer
Patient care skills	Dental Hygienist, Licensed Vocational Nurse, Dentist, Doctor, Physical Therapist Assistant
Leadership skills	Business Administration, Teacher, Nonprofit Manager
Communication skills	Sales Manager, Real Estate Agent, Mortgage Banker, College Professor

WHY SAVE FOR COLLEGE?

Reason #2: Higher Earnings

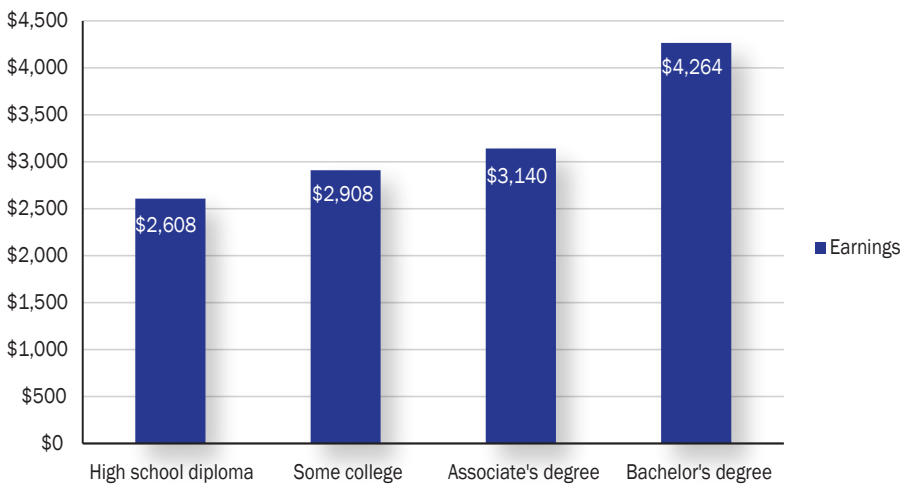
On average, a community college graduate makes **\$243,412** (before taxes) more than a high school graduate over a lifetime.⁵

A 4-year college graduate makes on average **\$790,088** (before taxes) more than a high school graduate over a lifetime.⁵

Despite not finishing college, **“individuals with some college, but no degree, earned 17% more than high school graduates working full-time year-round.”**⁶

A college education can provide access to jobs with higher wages and salaries, allowing your child the opportunity to be more financially secure with a higher monthly income to pay for all living expenses after graduation.

Median Monthly Earnings by Education Level⁷



Reason #3: Increased Financial Security

Stable employment and higher earnings can help your child build financial security over time. Building financial security is a process in which *“individuals must first learn the knowledge and skills that enable them to earn an income and manage their money. They then use that income to take care of basic living expenses and debt payments and save for future purposes. As savings grow, households can invest in assets that will appreciate over time and generate wealth and income.”*⁸

By saving for a college education now, you are enabling your child to take that first step toward financial security by learning the knowledge and skills needed to get a job.

Reason #4: Rising College Costs

By 2030, tuition and fees for a 2 year in-state public associate's degree could cost approximately \$19,515, if costs continue to rise at the rates they have over the past 30 years⁹.

In Texas from 2003 to 2012, college tuition on average increased by 55% for public schools¹⁰.

Financial aid options are available including grants, scholarships, or even loans to help pay for a college education. Unfortunately, they may not be enough to cover the full cost of college. You can start saving for college now to help cover at least a portion of the future costs of your child's college education, and to reduce the amount of loans needed to cover any remaining college expenses.

▶ *“Individuals with some college but no degree earned 17% more than high school graduates working full-time year-round”⁶.*

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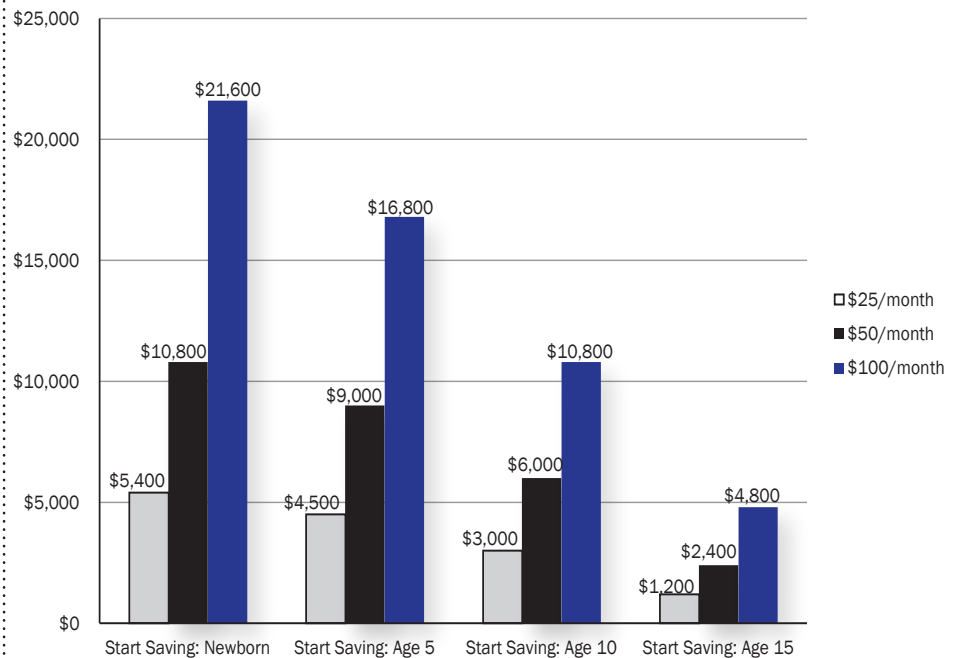
WHEN TO SAVE FOR COLLEGE?

Any amount you save will pay for a portion of your child's future college costs. College costs can include tuition and fees, room and board, books, and other living expenses. The earlier you start saving, the more money you will have saved when your child starts college.

Students accepted to college will be awarded a financial aid package based on their eligibility that includes grants, loans, and even work-study programs. Even with the financial aid package, nearly half of all students have unmet needs. This unmet need is the difference between the total cost of attendance and the total financial aid that is available to the student.¹¹

No matter how much you save each month, in many situations your savings can close the gap between financial aid and the total cost of attending the college.

Start Saving: An Age Based Comparison



Note: This chart does not include interest earned on savings. Your savings may be higher based on the interest rate of the account or savings plan you choose. There are online calculator tools like <http://apps.finra.org/Calcs/1/Savings> to estimate your earnings with interest.

The chart above provides you with an idea of how a monthly savings plan can grow over time and the amount of savings available when the child is 18 years old. Regardless of your child's age, now is the time to start saving for a college education!

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HOW TO SAVE FOR COLLEGE?

There are many opportunities available to start saving for your child's college education.

To simplify the savings options, they have been grouped into four categories:

1. Educational Savings Options
2. General Savings Options
3. Specialty Savings Options
4. Financial Aid: Free Application for Federal Student Aid Form (FAFSA)

Educational Savings Options

There are three main types of educational savings accounts:

1. 529 Accounts
2. Coverdell Educational Savings Accounts
3. EE Savings Bonds and I Savings Bonds

529 Accounts

A **529 Plan** is a tax-advantaged education savings plan named after Section 529 of the Internal Revenue Service (IRS) Code. These plans are administered by state agencies or other organizations and are designed to help families save for future college costs.

Texas offers both a prepaid plan (the Texas Tuition Promise Fund) and a savings plan (the Texas College Savings Plan). Both are managed by OFI Private Investments Inc., a subsidiary of OppenheimerFunds, Inc.

The **Texas Tuition Promise Fund** is a prepaid plan that allows individuals and families to purchase Tuition Units today that will pay for future tuition and required fees for any two- or four-year public college or university in Texas. A Tuition Unit will cover the cost of a fixed amount of undergraduate tuition and required fees. Currently, 100 Tuition Units will usually cover one academic year or 30 semester hours. For more information on the Texas Tuition Promise Fund or to enroll, visit <http://www.texas tuition promise fund.com/> or call 1-800-445-4723 option 5. Please note that there is a three year holding period on the account before any of the prepaid amount can be used.

The **Texas College Savings Plan** allows individuals and families to select from a variety of investment options and the money can be withdrawn with no federal tax when paying for a qualified higher education expense. For more information on the Texas College Savings Plan or to enroll, visit www.texascollegesavings.com/OFI529/ or call 1-800-445-4723 option 3. You can enroll in the Texas College Savings Plan through their online application, or download an application off their website, or you can have an application kit mailed to you. For Texas Tuition Promise Fund account holders there is a potential scholarship opportunity through the Texas Match the Promise Foundation. For more information on this opportunity, go to the website at www.matchthepromise.org.

529 Plans in Other States: Almost every state in the United States offers at least one 529 program. **The prepaid 529 programs are available to state residents only, but the college savings plans are open to residents of any state.** The details of each plan differ by state, so visit websites like http://www.savingforcollege.com/college_savings_201/ or <http://www.collegesavings.org/index.aspx> to compare 529 programs by state or by features (ex. fees, tax benefits, investment options, etc.).

HOW TO SAVE FOR COLLEGE?

If you decide that you want to open a 529 account, please review our resources at the end of this publication, or talk to a licensed financial advisor or other financial professionals to help you decide which plan works best for you.

Coverdell Educational Savings Account (ESA)

A **Coverdell Educational Savings Account (ESA)** is a custodial account or trust set up to save for the beneficiary's future education costs at any college that is eligible to participate in a student aid program administered by the U.S. Department of Education. The Coverdell ESA can also be used to pay for qualified educational expenses at eligible elementary and secondary schools. Qualified education expenses for a Coverdell ESA are: tuition and fees, books, supplies, and room and board. The Coverdell account is set up through a variety of different providers. To see a sample list of providers, visit http://www.savingforcollege.com/coverdell_esa_providers/.

EE Savings Bonds and I Savings Bonds

U.S. Savings Bonds are a government-issued, low-risk way to save for college that guarantees that you will not receive less money than you invest. There are two different types of savings bonds, **Series EE Savings Bonds and I Savings Bonds**, that permit qualified taxpayers to use the bond to pay for qualified educational expenses and then to exclude the interest paid (when redeeming the bond) from their gross income on the Federal Income Tax form. Series EE and I bonds can be used to cover qualified educational expenses, including but not limited to tuition and fees and expenses for any class required for a degree or certification program. Each bond has different features and advantages, and can be purchased in denominations from \$50 to \$10,000. For more information on the Series EE and I Bonds, read IRS Publication 970. I Savings Bonds can be purchased with your IRS tax refund when you file your taxes. Paper bonds are no longer available. All bonds are purchased through the TreasuryDirect website at <http://www.treasurydirect.gov/indiv/indiv.htm>.

Q&A

What is a "Qualified Tuition Expense"?

Depending on the savings product chosen, this may be tuition, fees, room & board, supplies. If the funds are not used on 'qualified tuition expenses' there may be a tax penalty.

What is a "beneficiary"?

A beneficiary is a person, usually a family member, who is designated as the person receiving the account funds.

HOW TO SAVE FOR COLLEGE?

	Educational Savings Options				
	Texas Tuition Promise Fund	Texas College Savings Plan	Other States' 529 Plans	Coverdell ESA	US Savings Bonds
Who can open the account?	Adult: Texas resident, or child of Texas resident	Adult	Adult; Resident of the state if pre-paid plan	Adult	Adult
What age can the account beneficiary be?	No age limit	No age limit	No age limit	Under 18 years old, no age limit if special needs	No age limit
Where can the savings product be established?	Online	Online	Online	Bank, Brokerage firm	Online
What is the cost to open the account?	\$25	\$25	Varies	Varies	Cost of savings bond
What is the contribution limit?	\$370,000 per child	\$370,000 per child	Varies	\$2,000 per year	\$10,000 per bond
What expenses can the account be used for?	Tuition, fees	Tuition, fees	Varies, depends on program	Tuition, fees, room, board, books, supplies	Depends on bond type purchased
Can the funds be transferred to another beneficiary?	Can be transferred to another beneficiary (family member)	Can be transferred to another beneficiary (family member)	Depends on the program	Can be transferred to another beneficiary (family member)	Can be transferred to another beneficiary (family member)
How does it affect FAFSA?	Account owner's assets	Account owner's assets	Account owner's assets	Account owner's assets	Account owner's assets
What if there is a scholarship?	Assets may be withdrawn to the amount of the scholarship without penalty	Assets may be withdrawn to the amount of the scholarship without penalty	Assets may be withdrawn to the amount of the scholarship without penalty; may depend on state	Assets may be withdrawn to the amount of the scholarship without penalty	Check with financial advisor

General Savings Options

There are several types of general savings accounts provided by financial institutions (i.e. banks, credit unions) that can help you save for college. It is important to note that all of these types of accounts are generally insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

1. Savings Account
2. Money Market Deposit Account or Money Market Account
3. Certificate of Deposit (CD)

Savings Account

A Savings Account is a safe place to keep money with low interest earned on the savings. The amount needed to open and maintain a savings account depends on the requirements of each financial institution. Savings accounts can be managed online and usually have minimal to no fees and limits on the number of withdrawals per month. Contact the financial institution of your choice for more information on a savings account.

For a detailed comparison of all college savings options visit:
www.raisetexas.org/resources/collegesavingsresources

HOW TO SAVE FOR COLLEGE?

Money Market Deposit Account

A **Money Market Deposit Account** or **Money Market Account** usually requires a higher amount to open the account than a Savings Account and offers higher interest, but usually has additional restrictions including minimum balances and limits on the number of transactions allowed over a specific period. Contact the financial institution of your choice for more information on a money market account.

Please note that a Money Market Account is different than a Money Market Fund. A Money Market Fund is a type of mutual fund usually offered by brokerage or investment firms. Saving in a Money Market Fund will have different amounts of risks, charges, and expenses than a Money Market Account. You will want to talk directly to a brokerage or investment firm if you are interested in a money market fund product.

Certificate of Deposit (CD)

A **Certificate of Deposit** requires the saver to keep a certain amount of money in the bank for a fixed period of time in which the money is inaccessible to the saver. There is a penalty for early withdrawal. A CD tends to have a higher interest rate than other savings products. After the fixed amount of time ends, the saver will receive the interest and the initial deposit back which can be used for paying college expenses. The amount of money required to open a CD and the amount of time the money must remain in the account will vary by financial institution. Contact the financial institution of your choice to receive more information about available certificates of deposit.

	General Savings Options		
	Regular Savings Account at Bank or Credit Union	Money Market Account	Certificate of Deposit
Who can open the account?	Adult or child	Adult	Adult
What age can the account beneficiary be?	No age limit	No age limit	No age limit
Where can the savings product be established?	Bank	Bank	Bank
What is the cost to open the account?	Varies	Varies	Varies
What is the contribution limit?	None, but FDIC insured until \$250,000	None, but FDIC insured until \$250,000	None, but FDIC insured until \$250,000
What expenses can the account be used for?	Tuition, fees, books, supplies, room, board	Tuition, fees, books, supplies, room, board	Tuition, fees, books, supplies, room, board
Can the funds be transferred to another beneficiary?	Can be transferred to another beneficiary (family member)	Can be transferred to another beneficiary (family member)	Can be transferred to another beneficiary (family member)
How does it affect FAFSA?	Account owner's asset or can be parent asset	Account owner's asset or can be parent asset	Account owner's asset or can be parent asset
What if there is a scholarship?	None, funds can be used at any time	None, funds can be used at any time	None, funds can be used at any time

HOW TO SAVE FOR COLLEGE?

3. Specialty Savings Options

Besides the education savings accounts and the general savings accounts, there are also many types of savings options offered that have specific eligibility requirements to start an account, or substantial restrictions on how the saved money can be used. These savings options will be referred to as Specialty Savings Options and if applicable to you, can help you save for your child's college education. Below is a list of Specialty Savings Options:

1. Individual Development Accounts (IDAs)
2. Children's Savings Accounts (CSAs)
3. Individual Retirement Accounts (IRAs)

Individual Development Accounts

An **Individual Development Account (IDA)** is a special matched savings program designed to help low- to moderate-income families obtain economic opportunity through the purchase of an asset. There are traditionally three assets purchased with an IDA account: a first home, a college education, or to capitalize a small business. All IDA program participants are required to accomplish three short-term financial goals to successfully complete the program and ultimately purchase an asset: attend financial education classes, attend an asset-specific class or training, and establish a consistent pattern of savings. If participants accomplish all three of these financial goals, then they will receive a match for their savings. The amount of match ranges from a \$1 to \$1 match all the way to a \$4 to \$1 match, depending on the IDA program.

Every IDA program has eligibility requirements to enroll in the program, and most programs allow a participant to save for a specific number of years. In order to use the money towards college expenses, it is recommended that an individual or family not start saving in the IDA program until the student is within 3-4 years of attending college. To find an IDA program in your area, visit the asset-building database on our website (http://raisetexas.org/assets_building_db/search/). For more information on an IDA program, please contact one of the IDA programs listed in our database directly.

Children's Savings Accounts

A growing list of places has developed a savings option called **Children's Savings Accounts (CSAs)**. CSAs are special accounts opened for children when they are newborn or at a young age, depending on the program, that grows as the child grows. In some cases, the CSAs are specified accounts to save for a college education. These accounts are growing in popularity and are expanding nationwide. Keep an eye out for CSA programs offered in your community. To get a better idea of what a Children's Savings Account program is and how it works, read about San Francisco's Kindergarten to College program <http://www.k2csf.org/> or visit the Corporation for Enterprise Development website <http://cfed.org/programs/csa/>.

Individual Retirement Accounts

In some situations, individuals have used **Individual Retirement Accounts (IRAs)**, such as the Traditional IRA or a Roth IRA, to save and pay for qualified higher education costs. If a distribution is withdrawn from an IRA before age 59 ^{1/2}, there is a 10% additional tax to pay. However, there is an Education Exception to the additional 10% tax if a qualified education expense is paid during the year of the distribution.

HOW TO SAVE FOR COLLEGE?

There are restrictions on who is eligible for this exemption, the types of education expenses allowed, and which colleges the student can attend. The IRS provides more information about this exemption in IRS Publication 970, and there is a way to figure out the amount not subject to the 10% tax. Read IRS Publication 970 (<http://www.irs.gov/publications/p970/ch09.html>) for more information.

4. Financial Aid: Free Application for Federal Student Aid (FAFSA) Form

In order to apply for financial aid, you must complete the **Free Application for Federal Student Aid (FAFSA)** Form. It must be completed to access federal financial aid. Some states and colleges will also use your FAFSA form to determine eligibility for private and state aid. The financial aid office at the college your child chooses will determine the amount of financial aid your child is eligible to receive. To find out the deadline for completing the FAFSA form for your child, visit <http://www.fafsa.ed.gov/deadlines.htm>.

Ways to Finance College ¹²	
Type	Notes
Saving for college	A family can decide how much money to save for college, can start saving early, and can choose a monthly savings amount that fits their budget. No repayment requirement since this money belongs to the student and the student's family. The federal government offers many tax breaks for families saving for college.
Federal Grants: Examples of federal grants include: Federal Pell grants, Federal Supplemental Educational Opportunity grants, Teacher Education Assistance for College and Higher Education grants, and Iraq and Afghanistan Service grants.	Grants are usually based on the financial need of the student. A student must qualify for grants but they do not need to be repaid as long as the student follows the requirements of the grant.
Scholarships (public and private): Examples of scholarships: Match the Promise Fund Scholarship Program, Texas Armed Services Scholarship Program, Top 10% Scholarship Program	Scholarships are usually based on academic merit, but can also be need-based. Students must qualify to receive scholarships. Amounts vary by scholarship.
State Grant Programs available to students at Texas colleges: Examples of Texas grants include: Texas Educational Opportunity Grant Program, TEXAS grant, and the Texas Public Educational Grant	Grants are usually based on the financial need of the student. A student must qualify for a grant but they do not need to be repaid as long as the student follows the requirements of the grant.
Federal Work-Study	FWS provides funds for part-time employment for college students
Loans (federal or private): Examples of Federal Loans are Direct Subsidized Loans and Direct Unsubsidized Loans, and Federal Perkins Loans. Private loans are nonfederal loans made by a lender (i.e. bank, credit union, state agency, school, etc.)	The interest rate depends on the loan type; must repay loan and interest. Student is required to go to school at least half-time to receive federal loans; maximum federal loans offered depends on college's cost of attendance. Amount of private loan depends on contract with the lender.
Exemptions	Some Texas residents may qualify for an exemption, giving the student the opportunity to attend a public college in Texas without paying tuition. For a complete list of exemptions and to see if you qualify, visit http://www.collegeforalltexas.com/apps/financialaid/tofa.cfm?Kind=E

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<<http://studentaid.ed.gov>>

FinAid! The SmartStudent Guide to Financial Aid:

<<http://www.finaid.org/savings/accountownership.phtml>> or

<<http://www.finaid.org/>>

TEXAS Grant:

<<http://www.collegeforalltexans.com/apps/financialaid/tofa2.cfm?ID=458>>

When to Save - Additional References and Resources

FINRA Savings Calculator: <<http://apps.finra.org/Calcs/1/Savings>>

FINRA College Savings Calculator:

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RAISE Texas would like to thank Bank of America for their generous financial support and continued guidance in facilitating savings opportunities and increasing awareness of the importance of savings for all Texans. We are proud to partner with Bank of America to provide this guide on college savings options to encourage Texas families to kick start college savings today!



RAISE Texas
Building Financial Success

RAISE Texas is a statewide network of non-profit organizations, for-profit corporations, and public institutions working to support and expand asset-building activities in Texas, with a particular focus on low- and moderate-income areas. Our mission is to advance policies and programs that foster financial success and economic stability for all Texans. In 2008, RAISE Texas became the first independent 501(c) (3) state asset-building coalition in the country and is recognized as a leader in the asset building field nationally. For more information about RAISE Texas, visit www.raisetexas.org.