



Student Loans and the Best Ways of Paying Them Off

- Paying for knowledge involves costs and benefits
- Many students go to college without fully grasping the costs and benefits of a degree
- Education pays off in the long run, but you have to figure out how to pay for it first
- Education payout will be higher from an investment in a major that requires more specialized skills in a field where workers are in high demand
- Education trains us to think critically and to defer gratification
- In general, more-skilled students tend to get accepted by more-prestigious colleges and go into higher-paying majors
- Planning for an education requires estimating future costs, including tuition, books, supplies, and living expenses
- Rates of tuition have been about the overall rate of inflation in the US. If these trends continue, a new parent might need to save three to four times the current cost of a college education for their child
- 529 Plan
 - Any money you invest can be taken out tax-free if you use it for qualified educational expenses such as college tuition, fees, dorms, and other school expenses
 - You cannot deduct the investment in a 529 from your taxable income
- American Opportunity Credit
 - The government gives you a free \$2,000 per student
 - You pay it up front, but you can credit it dollar for dollar against your tax liability if your income is below \$180,000 for married couples
- Lifetime Learning Credit
 - Gives you 20% tax credit up to \$10,000 worth of expenses
 - Only can be used for tuition and fees
- Coverdell Education Savings Account
 - Annual contribution of \$2,000 per student per year
 - Can be used for private elementary and secondary education
 - Avoidance of federal taxes on any investment earnings within the account
- Federal Student Loans
 - FAFSA determines eligibility
 - FAFSA requires tax return information on assets of retirement accounts
 - Subsidized loans

ALCHANATI CAMPBELL & ASSOCIATES LLC



Student Loans and the Best Ways of Paying Them Off

- The government pays all of the interest expenses while the student is in school. When the student graduates, interest starts
- Unsubsidized loans
 - During school, the interest accumulates on the loan balance
- Government loans have more flexibility than private student loans in terms of repayment
 - The standard in 10 years, and you will pay a fixed amount each month based on the interest rate when you borrow the money
- Payments can be deferred if you experience a financial hardship
- Students may also be eligible for private loans through banks or credit unions
- One of the downsides of student loans is that you cannot get rid of them through bankruptcy

ALCHANATI CAMPBELL & ASSOCIATES LLC