POP QUIZ!

5 Facts to Boost Your College Savings IQ

Fidelity INVESTMENTS

What percentage of college graduates leave campus with student loan debt?

A) 10%

B) 25%

C) 50%

D) 70%

E) 85%

Today, seven out of 10 college grads start their careers carrying student loans debt. But many parents are working hard to bring that percentage down. 83% of parents who graduated with student loan debt say that concerns that their children will face a similar financial burden motivates them to save for future college costs.[1]

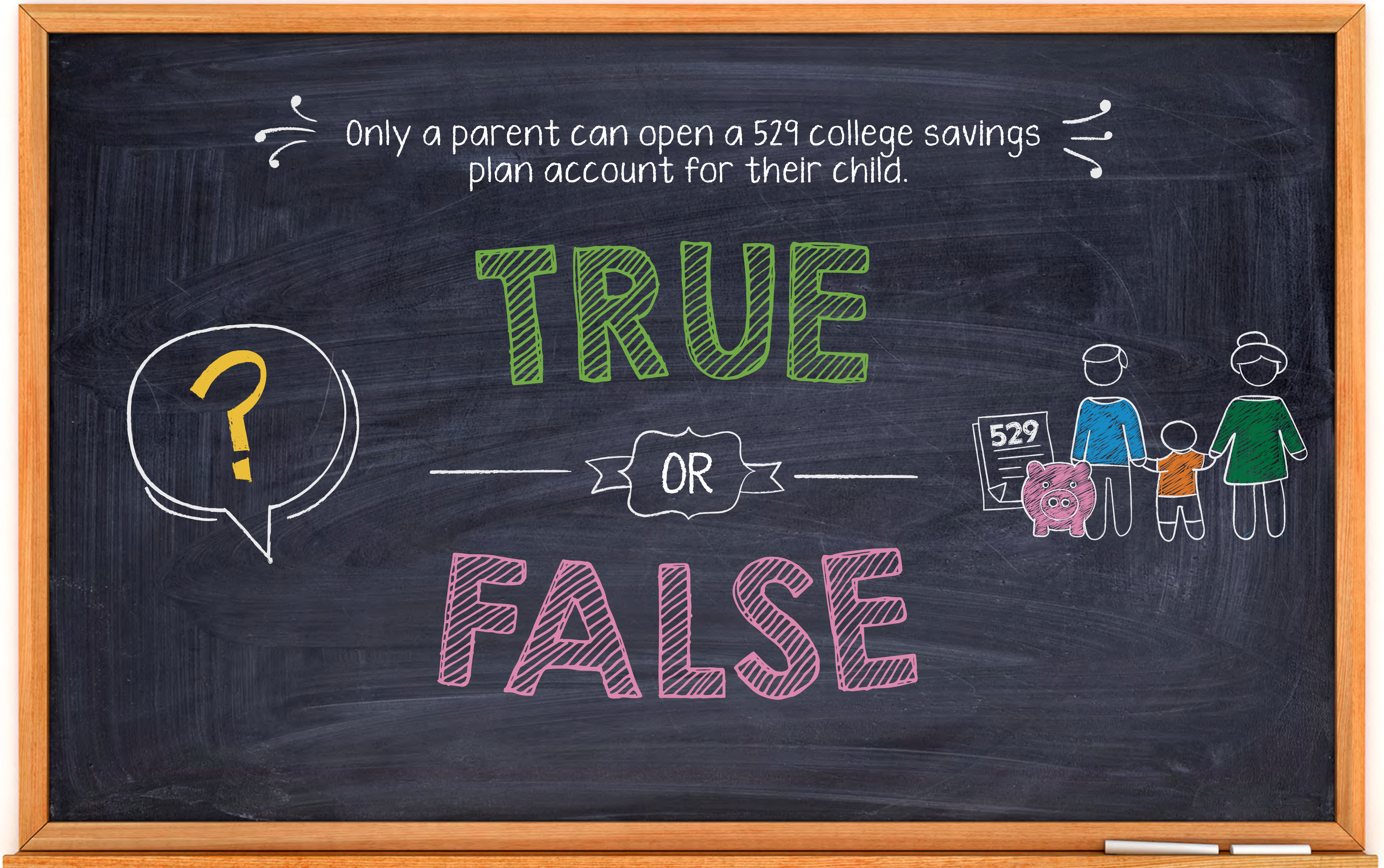
The percentage of parents saving for college remains at an all-time high, and many are adopting efficient savings habits such as saving in a 529 college savings plan account and making contributions regularly. But many parents still struggle with just how much they should be saving each month to reach their college goal.

HOMEWORK ASSIGNMENT:

Check out our customizable College Savings Calculator to help you identify how much you should be setting aside each month to pay for future college costs. And remember that every dollar saved is one less in student loan debt your child may face down the road.

[1] Fidelity Investments College IQ Survey, October 2017

Dollar cost averaging does not guarantee a profit or protect against a loss in a declining market.


Only a parent can open a 529 college savings plan account for their child.
TRUE
OR
FALSE
?
529

FALSE

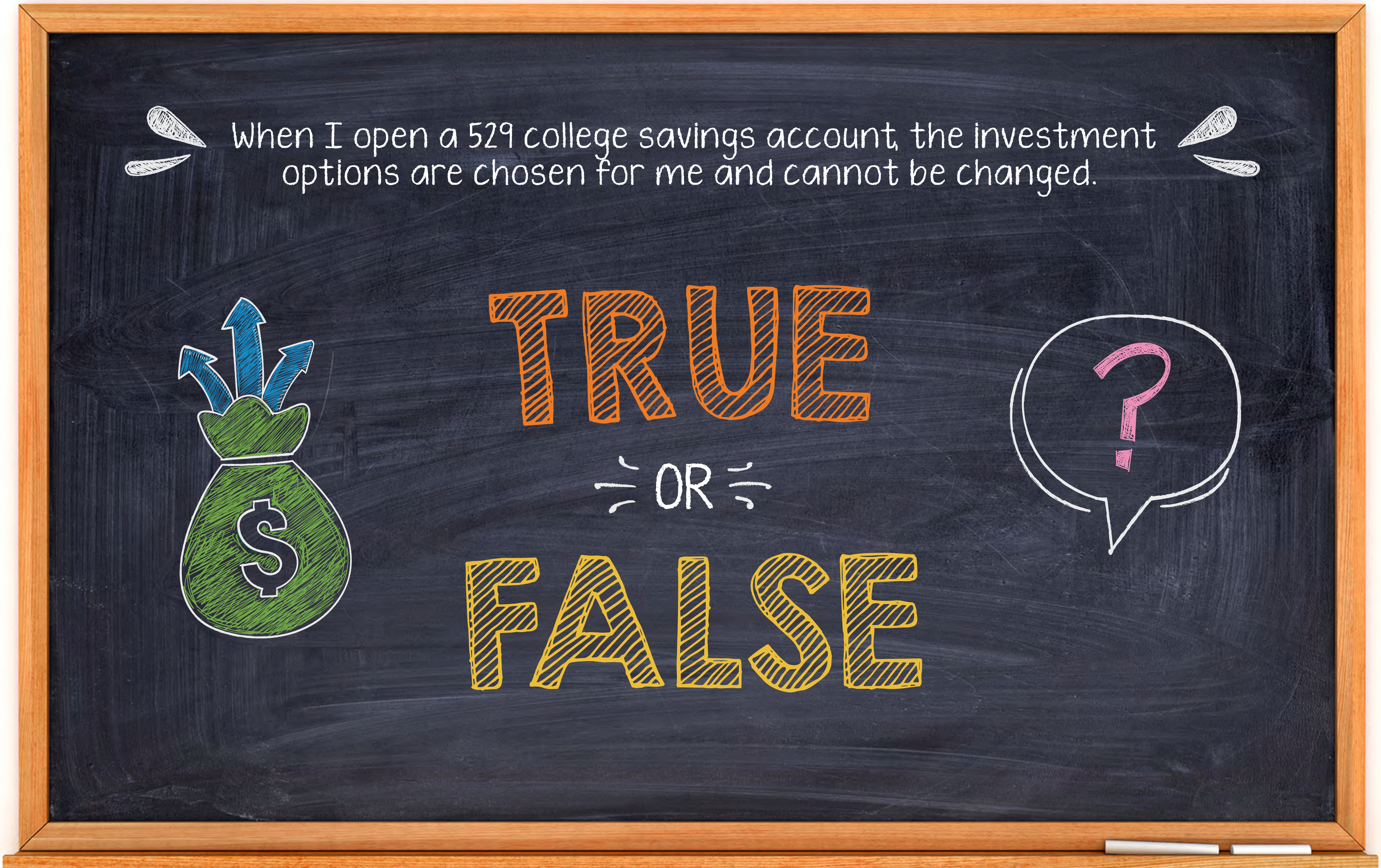
Whether you're a mom or dad, aunt or uncle, grandparent or friend, anyone can open a 529 college savings plan account. Once an account is open, it is easy to make contributions. Tip for extra credit: Consider encouraging gifts to college savings for holidays, birthdays or other special events. 84% of parents report they would welcome college contributions in lieu of traditional presents from friends and family.[2]

529 plans offer flexibility, control and tax-advantaged savings:

- Plans offer a range of investment options to help your savings grow
- Earnings grow federal income tax deferred and can be withdrawn federal income tax-free when used for qualified higher education expenses
- You can open a 529 plan account in any state, but it is important to consider your own state plan first as it may offer additional tax benefits or other state benefits such as financial aid, scholarship funds and protection from creditors

HIT THE BOOKS:
Learn more about The ABC's of 529 college savings plans and how to open an account.

[2] Fidelity Investments Holiday Gifting Snapshot, November 2016


When I open a 529 college savings account, the investment options are chosen for me and cannot be changed.
TRUE
OR
FALSE
$
?

FALSE

Each 529 college savings plan offers a range of investment options, which might include age-based strategies; conservative, moderate, and aggressive portfolios; or even a mix of funds from which you can build your own portfolio. Typically, plans allow you to change your existing investment options twice each calendar year. You can also adjust your strategy if you change the beneficiary. You can change how future contributions will be allocated at any time.

EXTRA CREDIT:
For more on 529 college savings plan investment options and strategies, check out
529 Plan FAQs: About the Portfolios and Investments.

If I have $20,000 saved in a 529 college savings plan, approximately how much of that savings does the federal financial aid formula expect me to use toward the first year of college?

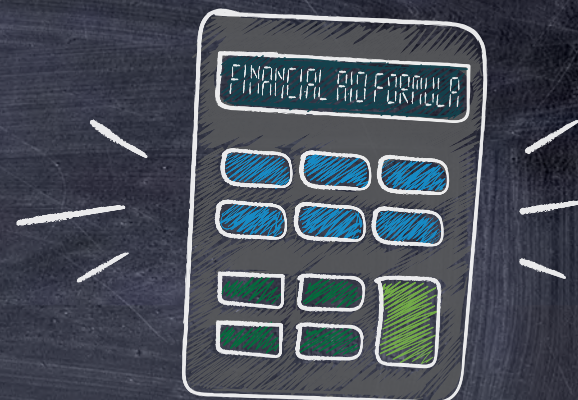
A) Less than $1,200

B) $2,000

C) $5,000

D) $10,000

E) Full cost



A) Less than $1,200

Miss this one? You're not alone. In our recent survey, 98% of parents overestimated (or weren't sure) how much they'd need to contribute for the first year of college.[3] The good news is that 529 savings has a very limited impact on the federal financial aid formula.

THE MATH BEHIND YOUR FAMILY'S EXPECTED CONTRIBUTION:[4]

From Parents

Income:
0%-47% of adjusted gross income

+

Assets:
0%-5.6% of nonretirement assets
This includes 529 savings plans and brokerage/mutual fund accounts

+

From Student

Income:
50% over $6,420

+

Assets:
20% of all assets
This includes UGMA/UTMA accounts and other savings

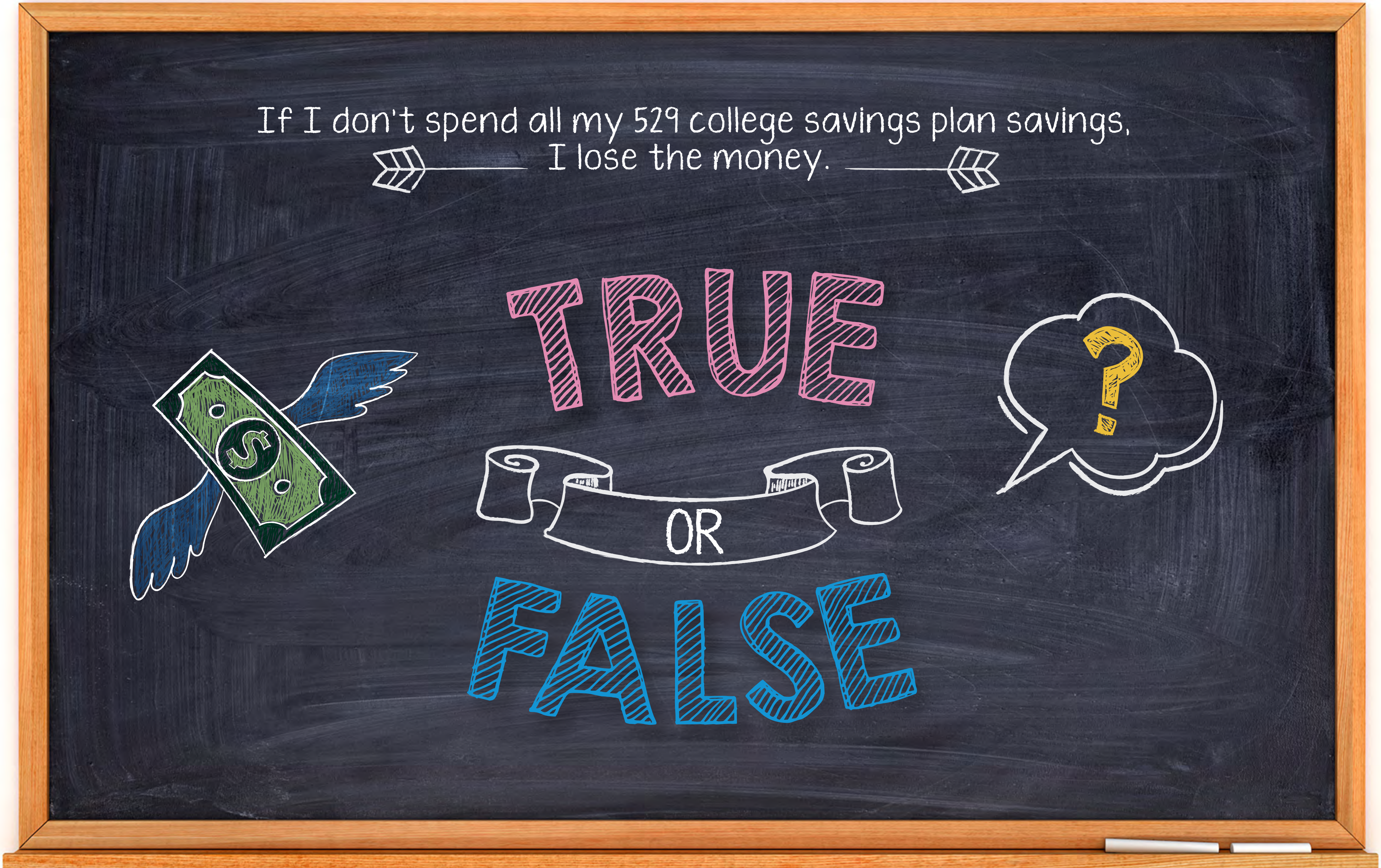
Funds saved in a parent-owned 529 college savings plan account are considered a parental asset and factored into federal financial aid formulas at a maximum rate of approximately 5.6%. Using this example, a family that has $20,000 saved in a 529 account may be expected to contribute approximately $1,120 their first year of school.

In contrast, savings vehicles such as UGMA/UTMA accounts are classified as student savings – which is weighed more heavily as part of the federal financial aid formula and triggers a higher expected family contribution rate.

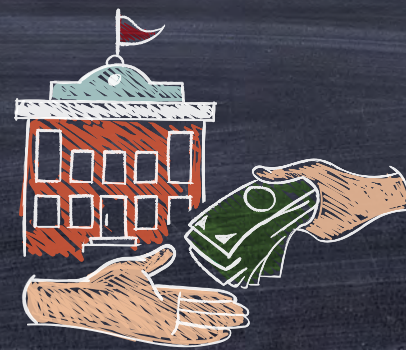
So for those who worry that saving for college will hurt your child's chances of receiving financial aid – take a moment to do the math. This lower rate means that every dollar saved in a 529 college savings plan may go a long way toward helping to pay for college without significantly affecting financial aid.

STUDY GUIDE: Study up with
3 "must-know" tips when planning for financial aid

[3] Fidelity Investments College IQ Survey, October 2017
[4] Fidelity Investments Saving for College Financial Aid Planning, based on information obtained from Finaid.org


If I don't spend all my 529 college savings plan savings,
I lose the money.
TRUE
OR
FALSE
?

FALSE



With careful planning, you can avoid having money left over in your 529 account once your child graduates. But if funds remain, there are several options available.

You can let the money sit in the account in anticipation of your child continuing on to graduate school or another post-secondary institution. You can also change the beneficiary to another family member, such as younger siblings, nieces, nephews, grandchildren. If you take advantage of one of these options, you'll want to rethink your investment strategy depending on how soon the funds will be needed so you can take full advantage of the potential for growth over time.

Also, if your child earns a scholarship and there are leftover college savings in your account, you only pay income taxes on the earnings portion of the money you take out to offset the scholarship.

If holding onto the funds or changing the beneficiary is not an option, then the money is still yours. You'll pay both a 10% penalty and ordinary income taxes on the earnings if you withdraw the money and don't spend it on qualified higher education costs.

A+

EARN YOUR A+:
Learn more about
how to withdraw 529 college savings plan savings.

Whether you have a house of toddlers or teens, or maybe even grandchildren, check out our

College Savings Calculator & Tools

to help you plan for college savings.

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