J.P.Morgan
Private Bank

LIFE EVENTS CHECKLIST SERIES: PLANNING FOR COLLEGE

Educating your family

Planning for a child's or grandchild's college education will rightfully focus on its considerable costs. However, involving your student in the planning/preparation process well before you drop them off can help them make the most both of their college years and your family's financial commitment to them.

THE EARLY YEARS

☐ **Start saving**

Tuition costs go up every year, at public and private colleges alike. If the current 6%[1] annual rate of increase holds, total tuition, room and board expenses for a child born today will top $500,000. Early planning can help make college financing more efficient and angst free.

☐ **Understand the savings vehicles**

Decisions regarding how much money to set aside for future college expenses and which savings vehicle to choose vary from family to family. The age of your student may also be a factor. For example: If your student is already college age, you may want to make tuition payments directly to the school. (See chart.) Below are the principal choices. Your J.P. Morgan team can help you evaluate your options:

WAYS TO SAVE/PAY FOR COLLEGE

	DIRECT GIFTS	529	UNIFORM GIFTS/ TRANSFERS TO MINORS	TRUSTS
Description	• Donor pays tuition payments directly to the school	• Donor determines beneficiary and establishes account with post-tax dollars	• UGMA/UTMA accounts are overseen by donor-appointed custodian	• Grantor transfers assets to irrevocable trust, often using annual gift exclusion
Pros	• Donor has complete control over the use of funds • Are not taxable gifts; leaving annual exclusion gifts (currently $15,000) for other purposes	• Assets grow income tax free and distributions for qualified expenses not subject to income tax • $10K per year may be used for Kindergarten through Grade 12 expenses	• More flexible use of assets for recipient • Broader investment options	• More flexible use of assets for beneficiary • Trustee has flexibility in determining trust's investments
Cons	• Exclusion from gift tax does not extend beyond tuition • Donor has to be living to make payments (riskier for older donors)	• Limited investment choices • If not utilized for qualified expenses, earnings subject to tax and 10% penalty	• Recipient gains control of assets at age of majority • No income tax benefits; subject to parents' rate because of "kiddie tax"	• Attorney must draft the trust agreement, and guidance of a tax advisor may be required • Income and gains from trust assets are subject to income tax

[1] The cumulative change in tuition and fees from 1982/83 through 2019/20 academic years. Sources: College Board Annual Survey of Colleges; National Center for Education Statistics (NCES); Integrated Postsecondary Education Data System (IPEDS); U.S. Department of Education.

☐ **Introduce budgeting basics**

Teaching your student budgeting basics can start in grade school and evolve into more sophisticated wealth management practices over time. For help diving into key topics, ask your J.P. Morgan team for a copy of our ***Children and Wealth Workbook***.

THE TEENAGE YEARS

☐ **Focus on smart financial habits**

As your student gains more freedom and financial responsibility, continue building a foundation of smart financial habits that will bear fruit well into their adult years. With learning to drive and first jobs, many students are making decisions with meaningful financial impacts for the first time. In particular, helping them understand their expenses can encourage an appreciation for your/the family's financial commitment to them—and aid their understanding of what it will take to support themselves after they finish school.

☐ **Articulate your expectations**

Will you pay for everything? Do you expect your student to cover some costs? Must they maintain a certain grade-point average or level of community/family involvement? Do you expect them to be financially self-sufficient immediately upon graduation? Articulating your expectations—and discussing the true costs of a college education—well in advance of your student heading to school can help all parties get on the same page.

☐ **Communicate your funding policy**

If you're paying tuition (or covering major expenses) for several family members, developing a uniform funding policy may be helpful. Spelling out in advance what you will cover, for what period of time, and detailing other expectations/requirements can help everyone accept the process as fair, even if individual outcomes vary.

☐ **Open checking and savings accounts**

Taking responsibility for one's cashflow is a key milestone on the road to adulthood. Setting up checking and savings accounts for your student to manage while they are still living at home can help them learn to flex their financial muscles with your supervision.

SUMMER BEFORE COLLEGE

☐ **Draw up a college contract**

Consider drawing up a *college contract* that clearly states each involved party's responsibilities, expectations and goals for the years your student will be in school. This can help bring everyone to the same side of the table.

☐ **Get basic legal documents signed**

Paying your student's tuition does not necessarily mean you have the legal right to gather information on their behalf or make healthcare decisions for them. Before your student heads for school, discuss and have drawn up for them, depending on their age, basic legal documents, including a Power of Attorney, Healthcare Agent and HIPPA forms.

☐ **Begin an investment dialogue**

Time is one of the greatest assets a young person has: Introduce them to the power of compounding, and the multiple benefits of saving and investing early and often—for example, using their own wages and/or holiday and birthday gifts they receive from family and friends. Your J.P. Morgan team can help guide these conversations with age-appropriate suggestions.

☐ **Start building credit**

Learning to use credit wisely can set a young adult on the road to financial flexibility later in life. As a starting point, limit their credit card purchases to expenses that are predictable (e.g., gas, utilities, etc.) so they become accustomed to budgeting for and paying off the full balance every month.

WE CAN HELP

As you begin to make plans for the education of your family's next generation, know that your J.P. Morgan team is not only ready to help you prepare for funding that goal, but also to serve as a sounding board to move you closer to the future you want for your student, equipping them to make smart decisions in all aspects of their own financial life.

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