

## The Oklahoma Cooperative Extension Service Bringing the University to You!

The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; family and consumer sciences; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state, and local governments cooperatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.



## Paying for College

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Paying for college can be one of the most pressing financial challenges that a family will face. A college education is an important ingredient for success, since research shows that people with college degrees have more job choices and earn more money.

For most families, saving enough to pay for the costs of higher education for just one child, let alone all their children, can seem overwhelming. Tuition at Oklahoma colleges and universities has increased at a faster rate than inflation. Although it's hard to estimate future college costs, it is a good idea to plan ahead.

There are plenty of options to help pay for college. This fact sheet will cover:

- Suggestions for preparing for college expenses.
- Financial aid options including FAFSA, the free application for federal student aid.
- College investment accounts.

### Preparing for College Expenses

There are some steps you and your child can take now to prepare for future college costs.

- Help your child choose a clear career path. This will ensure that your child can finish his/her degree on time.
- Investigate starting salaries for potential careers. This will help you and your child determine if taking out loans will pay off in the long run. Use the Oklahoma College Assistance Program's Loan Calculator at <http://www.ocap.org/PFC/calculators.shtml> to determine the minimum salary needed to handle monthly loan payments.
- Show your child the differences in costs between different college options. Attending a community college for two years then transferring to a four-year institution to complete your degree can be a cheaper option.
- Develop a college budget for your child. Discuss what expenses your child will be expected to cover and how. Your child may have to work part- or full-time while working on a degree. Effective time management skills will be critical.
- Take advantage of available tax credits and deductions for college expenses. Refer to IRS Publication 970 Tax Benefits for Education. You can download it at <http://www.irs.gov> or call 1-800-829-3676 to request a mailed copy. Tax breaks that come with certain types of college investment accounts will be discussed later.

Oklahoma Cooperative Extension Fact Sheets are also available on our website at:  
<http://osufacts.okstate.edu>

### Calculating College Costs

Costs at a particular school can be found at National Center for Education Statistics' College Navigator: <http://nces.ed.gov/collegenavigator>.

Another good college cost calculator can be found at <http://www.savingforcollege.com>.

### Financial Aid Options

Financial aid comes in many forms – not just student loans – so it is a wonderful resource to help pay for college.

The first step in the financial aid process is to fill out the Free Application for Federal Student Aid (FAFSA) as soon as possible after January 1 of the year your child plans to attend college. The FAFSA is used to determine eligibility for most federal financial aid, including federal grants and scholarships. You can complete your FAFSA online at <http://www.fafsa.gov>. If you have questions about the application process, call 1-800-433-3243.

A federal student aid award package may consist of:

- Federal and State Grants – such as a Pell Grant or an Oklahoma Tuition Aid Grant (OTAG)
- Work-Study
- Federal Loans (Perkins, PLUS, Stafford)

The federal government provides a free online resource on all federal student financial aid programs at <http://www.fedmoney.org>.

Oklahoma grants and scholarships can be located at the Oklahoma College Start website: [https://secure.okcollegestart.org/Financial\\_Aid\\_Planning/\\_default.aspx](https://secure.okcollegestart.org/Financial_Aid_Planning/_default.aspx)

There are a wide variety of additional grants and scholarships available to students with superior academic records, special interests and other qualifying characteristics. Certain corporations, professional organizations, religious organizations, foundations and financial institutions award financial aid. Search online through various directories such as FinAid's FastWeb Scholarship Search at <http://www.fastweb.com>.

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Oklahoma Money Matters (1-800-970-OKMM), an initiative of the Oklahoma College Assistance Program, provides some great advice when it comes to taking out student loans: “Student loans should be your last line of defense in the financial aid arsenal. Not because they’re not great ways to fund a college education, but because they must be repaid, plus interest. When borrowing student loans, it’s important to exhaust all your Federal student loan options before considering any other type of loan, and to borrow only what you need to pay for your education. There’s no need to start post-college life with loads of debt.”

## College Investment Accounts

It’s a fact of life. Families who want to send their children to college are going to have to pay at least some of the cost out of their own savings. There are many college investment accounts available to help families save. Some come with important tax benefits. It is also important to understand how these accounts could influence your child’s financial aid package.

According to FinAid, it is better for college savings to be in the parent’s name. In determining financial aid eligibility, a significant portion of these assets are sheltered from the needs analysis process. However, there are no asset protection allowances for money in your child’s name.

### 529 College Plans

There are two basic types of 529 plans: Savings Plans and Prepaid Tuition Plans. Contributions must be made in cash or by check. These accounts are considered the asset of the parent or custodian, not the student.

Rules for the 529 plan vary by state. You do not have to be a resident of a state in order to set up a 529 plan in another state. One state’s 529 plan can be used to fund a college education at an institution in another state. Most states offer tax deductions only to their residents.

### A. Savings Plans

Savings plans are the more common type of 529 plans. Nearly all states offer savings plans. The Oklahoma College Savings Plan (OCSP) has the following features:

- Net contributions are tax-deductible up to \$10,000 per year for a single return or \$20,000 per year for a joint return with a 5-year carry forward period allowed. Earnings on the investments are exempt from state and federal tax.
- Money set aside in these accounts grows tax-free.
- Withdrawals are tax-free as long as it is used for higher education expenses such as tuition, books, supplies, required fees and certain room and board costs.
- Any family can contribute to a plan, regardless of income. Parents, grandparents, relatives, and friends may open an account and contribute on behalf of a beneficiary.
- The account owner may designate anyone he or she chooses as the beneficiary, including him or herself.

An account may be opened with as little as \$100 per investment. Check with your employer to see if you can have your monthly contributions taken automatically out of your paycheck. The only maximum contribution limit is \$300,000

per beneficiary. This limit applies to all accounts established for one beneficiary.

If your child or beneficiary decides not to attend a post-secondary institution, the account owner can transfer funds to another beneficiary. To avoid penalty and income tax, the new beneficiary must be a “family member” of the original beneficiary as defined by law.

Investment choices vary in investment strategy and degree of risk, allowing you to select the option(s) that best fit your needs and investment philosophy. Don’t be afraid to ask for help in explaining investment options. For more information go to <http://www.ok4saving.org> or call OCSP at 1-877-654-7284.

### B. Prepaid Tuition Plans

These accounts let you pay for your child’s future college tuition (or a portion of it) at today’s prices. Prepaid tuition programs are administered by individual states and most can only be redeemed at public colleges and universities in that state. In many cases, you or the student beneficiary must live in that state. If the student decides to attend college in a different state, plans typically pay the average in-state rate and the family pays the difference. Oklahoma currently does not offer this type of 529 plan.

There are some private colleges and universities that offer pre-paid tuition programs through the Private College 529 Plan (<http://www.privatecollege529.com>). Participating Oklahoma institutions are:

- Oklahoma Christian University
- Southern Nazarene University
- University of Tulsa

### Coverdell Education Savings Accounts (ESA)

These accounts are similar to Roth IRAs, but for education. The account is considered the asset of the parent or custodian.

- You can make a contribution up to \$2,000 a year with after-tax dollars up until the beneficiary turns 18. These accounts do not offer the tax deductions 529 plans do.
- Total contributions (by different family members) cannot exceed \$2,000 a year or a penalty will be owed.
- The money grows tax-free. Your entire withdrawal is tax-free as long as you use the funds for education purposes - part of your withdrawal may be taxable if you claim the American Opportunity Credit or the Lifetime Learning Credit.
- Account contributions will eventually be distributed to the child if not used for college and will become taxable to the child.
- The account must be fully withdrawn by the time your child turns 30 or it will be subject to tax and penalties.
- You can switch beneficiaries among other members of your family. This way, if one child doesn’t use all their savings, you can transfer the balance to another child.
- Contributions can only be in cash or by check.
- These accounts currently allow you to use the funds for certain K-12 education expenses in addition to college costs.

### Custodial Accounts

These are savings accounts in your child’s name that you control (if you are the custodian) until your child reaches

legal adulthood (age 18 in Oklahoma). You may have heard these accounts referred to as UGMA (Uniform Gifts to Minors Act) accounts or UTMA (Uniform Transfers to Minors Act) accounts. These accounts are considered the student’s asset when determining eligibility for financial aid.

You decide how much to put into the account and how it is invested until the child turns 18. After that, the child has complete control over the account. You cannot transfer it to another child.

These are taxable accounts. Currently, the first \$1,000 of earnings each year is tax-free, and the next \$1,000 is taxed at your child’s tax rate, usually lower than yours. Any additional earnings are taxed at your rate. These benchmarks are indexed for inflation, so consult the IRS for future changes. Withdrawals are subject to federal tax. You can deposit cash, savings bonds and other securities into the account.

With all these college investment accounts, contributions are considered gifts. Currently, you can make cash gifts up to \$14,000 per year per person without having to worry about gift taxes or filing a gift tax return. The gift tax exclusion amount is indexed for inflation.

## Conclusion

In an effort to disseminate information quickly and reduce costs, more agencies and institutions are driving their

clients to the internet to get information. If you do not have internet access, check with the local public library. Many offer free internet access and reference staff that may be able to help you use the resources mentioned in this fact sheet.

### Helpful Websites

Consumer Financial Protection Bureau:

<http://www.consumerfinance.gov>

FinAid:

<http://www.finaid.org>

Free Application for Federal Student Aid:

<http://www.fafsa.ed.gov>

National Center for Education Statistics:

<http://nces.ed.gov>

Oklahoma Board of Regents:

<http://www.okhighered.org>

Oklahoma College Assistance Program:

<http://www.ocap.org>

Oklahoma College Savings Plan:

<http://www.ok4saving.com>

Oklahoma College Start:

<https://www.okcollegestart.org/>

Oklahoma Money Matters:

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

Private College 529 Plan:

<http://www.privatecollege529.com>

Saving for College.com:

<http://www.savingforcollege.com>