



# Saving for Higher Education

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# **Saving for Higher Ed - Debunking the Myths and Sharing Resources**

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# **Aspirational Impact of Saving**

## ■ Aspirational Impact

- Saving for college has a positive aspirational impact.
- According to research from the Center on Assets, Education & Inclusion\*:

*Children with just \$500 or less saved for college are **3 times** more likely to go on to college and **4 times** more likely to graduate than those without saving.*

*The focus of this research was on children from low- and moderate-income families.*

\*Assets and Education Initiative, *Building Expectations, Delivering Results: Asset-Based Financial Aid and the Future of Higher Education*, in William Elliott (Ed.), *Biannual report on the assets and education field*, (Lawrence, KS: Assets and Education Initiative, 2013).

# **Debunking the Myth: The Impact of Saving on Financial Aid**



## Debunking the Myth Impact on Financial Aid

*Myth: If we save for college, our children won't receive any financial aid. Saving negatively impacts financial aid eligibility.*

**Fact:** It is income that has the most substantial impact on financial aid eligibility.



## The Facts – Often No Impact on Financial Aid

- For families earning under \$50,000 per year, saving and assets typically have no impact on federal financial aid eligibility.
- Why? The FAFSA has a *Simplified Needs* formula.

*Information on federal financial aid is based on current interpretation of federal financial aid rules, which are subject to change. The rules in effect at a later date may be different. For more complete information, please go to the U.S. Department of Education's website at [www.StudentAid.gov](http://www.StudentAid.gov).*



# The Facts – Often No Impact on Financial Aid

- Simplified Formula – Who qualifies?
  - Parents combined AGI (or income earned from work for non-filers) less than \$50,000 AND:
    - Any household member received a federally means tested benefit during 2020 or 2021; OR
    - Parents are not required to file a Schedule 1 (or were only for excluded reasons); OR
    - Either parent is a Dislocated Worker.
- For those who qualify, parent and student assets are **completely excluded**.

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## The Facts – Often No Impact on Financial Aid

- So what about those earning over \$50,000.....
- Do all assets count? NO!
- The following assets are excluded:
  - Possessions
  - Primary residence
  - Retirement plans
  - Family owned and controlled small business

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## The Facts – When Assets Do Count the Impact is Minimal

- What if those parents have countable assets?
  - FAFSA has built in Education Savings and Asset Protection Allowance.
  - Example – Two parents living in the household and oldest age 46 – allowance is \$3,600.
  - Only “countable” assets that exceed the allowance have ANY impact – and never more than the current maximum rate of 5.64%.

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# “Expected Family Contribution 2022-23” – Income vs. Assets

	Scenario A	Scenario B	Scenario C	Scenario D
<b>Income</b>	<b>\$75,000</b>	<b>\$75,000</b>	<b>\$75,000</b>	<b>\$75,000</b>
<b>“Countable” Assets/Saving</b>	<b>\$0</b>	<b>\$10,000</b>	<b>\$25,000</b>	<b>\$50,000</b>
Expected contribution from income	6,156	6,156	6,156	6,156
Expected contribution from assets	0	240	852	1,910
Total Expected Parent Contribution	6,156	6,396	7,008	8,066



## The Facts – Student vs. Parent Savings

- Student savings, if required (not required in the simplified formula), have more impact.
- No Education Savings and Asset Protection Allowance until age 26.
- Student assets are assessed at rate of 20%.
- 529s count as a parent asset for dependent students.

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# **Saving Really Can Make a Difference**

## Debunking the Myth Impact of Saving

*Myth: We can't possibly save enough! We don't have enough money to save what is needed to really make a difference.*

Fact: Small amounts saved over time add up and could make a big difference.

# The Facts – Small Amounts Add Up

- Small amounts saved consistently add up!
- Over time, people often stop noticing small amounts they set aside.
- Example – save this amount every week for 10 years (even before interest):
  - \$10 per week = \$ 5,200
  - \$25 per week = \$13,000
  - \$50 per week = \$26,000
  - \$100 per week = \$52,000

# The Facts – Saving Helps

- Paying for college is a piecemeal approach.
- Example
  - Fall balance = \$11,500
  - Resources:
    - Grants and scholarships = \$6,000
    - Student loans = \$2,750
    - Student summer earnings = \$750
    - Tuition payment plan = \$500 (\$100 per month X 5 months)
  - Remaining balance = \$1,500 (saving can make all the difference in getting the bill paid!)





# **The Facts – Saving is Better than Borrowing**

- Saving can reduce student loans debt.
- Every dollar available from savings, is a dollar that doesn't need to be borrowed and repaid with interest.
- Even small reduction in student loan debt can make loan repayment after college more manageable.

# The Facts – Saving is Better than Borrowing

- Saving versus borrowing:
  - **Save** \$100 per month for 6 years (even with no interest) = **\$7,200**.
  - **Borrow** \$7,200 and repay at 6.5% -
    - Over 6 years - \$121.03 per month for total of **\$8,714.29**
    - Over 10 years - \$81.75 per month for total of **\$9,810.77**
- Every little bit will make life after graduation easier.

# One Way to Invest for Higher Education Expenses: NextGen 529 Maine's 529 Plan

- NextGen 529 Overview
- Grants for Maine Accounts
  - Either the account owner or the account beneficiary must be a Maine resident.
- Contributions & Withdrawals

*NextGen 529 is a Section 529 plan administered by the Finance Authority of Maine (FAME). You may obtain the NextGen 529 Program Description by requesting a copy from your financial professional, visiting [NextGenforME.com](http://NextGenforME.com) or calling the program manager at 1-833-336-4529. The Program Description should be read carefully before investing.*

*The Program Description contains more complete information, including investment objectives, charges, expenses and risks of investing in NextGen 529, which you should carefully consider before investing. If you are not a Maine resident, you also should consider whether your or your designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's 529 plan.*

*NextGen 529 accounts are not bank deposits and are not insured by the Federal Deposit Insurance Corporation (FDIC). Returns on investments in NextGen 529 accounts are not guaranteed or insured by the State of Maine, FAME or any NextGen 529 service providers. NextGen 529 participants assume all investment risk of an investment in NextGen 529, including the potential loss of principal and liability for tax penalties that are assessable in connection with certain types of withdrawals of amounts invested in NextGen 529.*

*Sumday Administration, LLC is the program manager, The Bank of New York Mellon is the program custodian, BlackRock Advisors, LLC is the program investment manager, and BlackRock Investments, LLC, Member FINRA, is the program distributor and underwriter.*

## What is NextGen 529?

- NextGen 529 is Maine's Section 529 plan, which many families use to save for higher education.
- NextGen 529 is for students of all ages, including adults saving for their own education.
- Tax treatment of 529s:
  - Contributions are made with after-tax dollars.
  - Any earnings in a 529 plan are tax-free, when used to pay for qualified higher education expenses\*.
- NextGen 529 has a variety of investments options with varying levels of risk.

*\* To be eligible for favorable tax treatment afforded to any earnings portion of withdrawals from Section 529 accounts, such withdrawals must be used for qualified higher education expenses, as defined in Section 529 of the Internal Revenue Code. Any earnings withdrawn that are not used for qualified higher education expenses are subject to federal income tax and may be subject to a 10% additional federal tax as well as state and local income taxes. State tax treatment of distributions for certain qualified higher education expenses may differ. Please consult your tax advisor for specific advice regarding such distributions.*



# What is NextGen 529?

- Maine's 529 Plan
  - Client Direct Series - for investors who want to make their own investment choices
  - Client Select Series - for investors who would like to work with a financial advisor

*Each series offers different investment options, each with its own sales charges, fees and expense structure. Some of the same investment options are available in each series.*

# Flexibility In Use of Assets

- Assets can be used at eligible accredited post-secondary schools\* including:
  - In-state or out-of-state schools
  - Public or private university
  - Two-year, four-year and graduate schools

*\*Eligible higher education institutions include all accredited post-secondary institutions that are eligible to participate in Federal Student Assistance Programs. Post-secondary institutions could include public or private universities and colleges, graduate schools, proprietary institutions, foreign institutions, and vocational schools.*

- Qualified expenses for post-secondary institution attendance:
  - Tuition and fees
  - Books and supplies
  - Computer equipment, software and services
  - Required equipment
  - Room and board\*

*\*Beneficiary must be attending an accredited institution at least on a half-time basis for room and board to be considered an eligible expense.*



- Additional qualified uses include:
  - Up to \$10,000 per year from a 529 account for the same beneficiary for elementary or secondary public, private or religious school tuition\*.
  - Expenses for fees, books, supplies, and equipment required for the participation of a beneficiary in an apprenticeship program registered and certified with the Secretary of Labor under the National Apprenticeship Act;
  - Amounts paid as principal or interest on any qualified education loans of either the beneficiary or sibling of the beneficiary, up to a lifetime maximum of \$10,000 per individual.

*\*The earnings portion of such distributions is federal income tax free and Maine state income tax free, but other states may vary.*



# Grants to Open an Account

- \$100 Initial Matching Grant
  - One-time grant for eligible Maine accounts
  - One grant per beneficiary
  - Grant automatically awarded after account is opened with minimum initial contribution of \$25.
  
- \$500 Alfond Grant
  - Maine resident children who have been awarded the Alfond Grant may use the grant to open a NextGen 529 account without the required initial contribution.
    - An Alfond Grant recipient baby can get the \$100 Initial Matching Grant when they open a NextGen 529 account and a \$25 contribution is made **before the baby's first birthday**.

*Grants are linked to eligible Maine accounts. Grants may lose value. Upon withdrawal, grants are paid only to institutions of higher education. See Terms and Conditions of Maine Grant Programs for other conditions and restrictions that apply at [NextGenforME.com](http://NextGenforME.com).*

# Grants for Additional Contributions

- NextStep Matching Grant
  - 30% match on contributions made in a calendar year
  - Maximum award amount is \$300 per year
  - One grant per beneficiary per year
  - Grant generally awarded in the 1<sup>st</sup> quarter for the previous calendar year's contributions
  - For example:
    - Contribute \$75 – get a \$25 matching grant
    - Contribute \$300 – get a \$100 matching grant
    - Contribute \$1,000 – get a \$300 matching grant

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# Grants for Additional Contributions

- \$100 Automated Funding Grant
  - One-time grant for eligible Maine accounts.
  - One grant per beneficiary.
  - Grant automatically awarded after six consecutive automated contributions no less frequently than quarterly have been made.
  - Contributions must be made from a savings or checking account or by payroll deduction.

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# Grants for Maine Accounts

- Matching grant funds (and any earnings)
  - May only be used to pay for qualified higher education expenses at post-secondary institutions
  - Will only be paid to an eligible college/university
  - Should be used before other assets in the account

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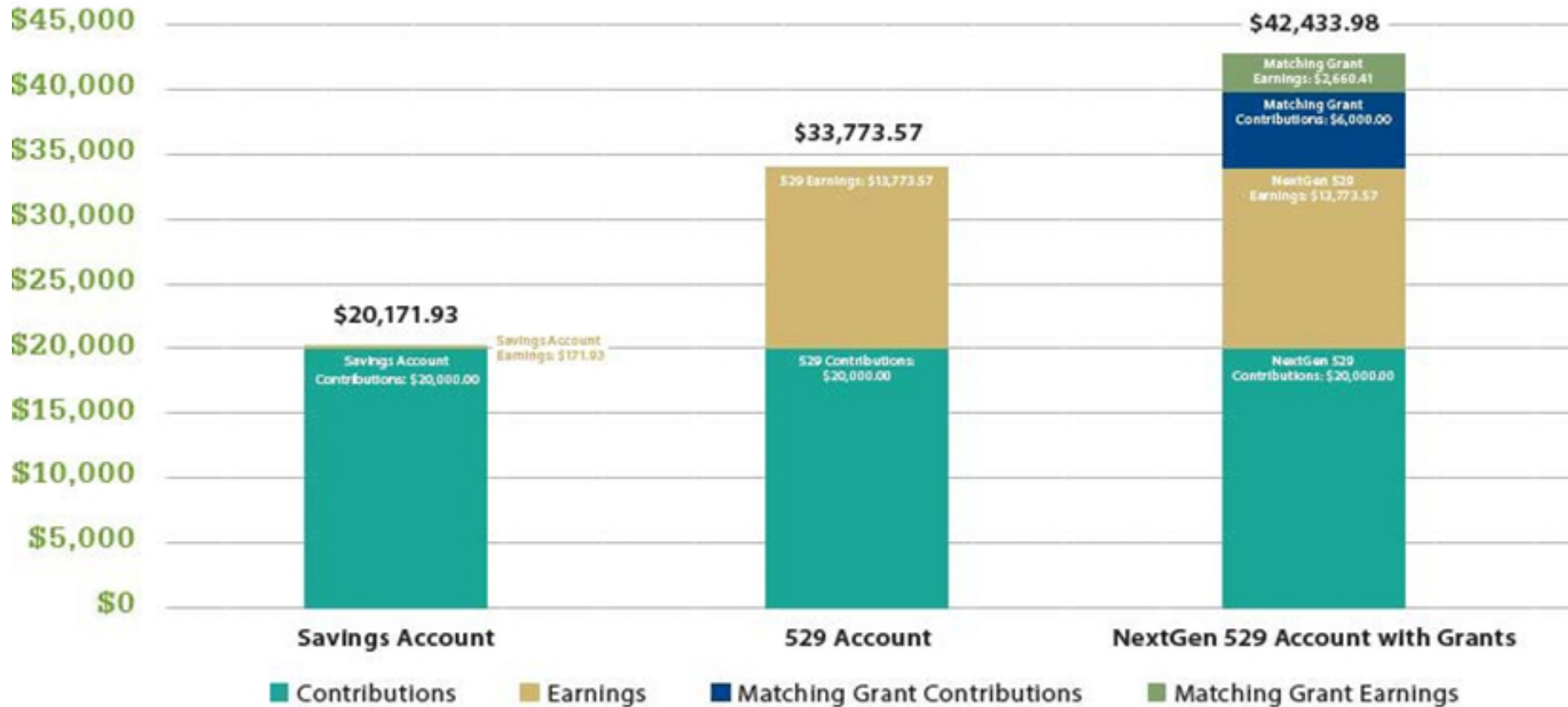
- Example
  - Contribute \$1,000 per year and receive a NextStep Grant for \$300 per year.
  - Total per year is \$1,300
  - \$1,300 per year for 20 years is \$26,000

*This hypothetical example reflects the necessary annual contribution to maximize the NextStep Matching Grant.*

*This example does not reflect market fluctuations, including loss of principal which may affect contributions and grants, and assumes the NextStep Matching Grant remains constant over time. Grants are linked to eligible Maine accounts. Grants may lose value. Upon withdrawal, grants are paid only to institutions of higher education. See Terms and Conditions of Maine Grant Programs for other conditions and restrictions that apply at [NextGenforME.com](http://NextGenforME.com).*

# Saving vs. Borrowing

Investing in a NextGen 529 account allows you to benefit from compound returns.



*This hypothetical savings example illustrates the potential value of regular \$1000 annual investments over 20 years (does not include the assumed \$25 initial contribution) and an average annual return of 5.2%. Matching grant awards are assumed at \$300 per year over 20 years at an average return of 3.70% for 15 years and 2.00% for 5 years. These examples do not reflect actual investments and do not reflect any fees or expenses. Investment performance is not guaranteed. Investments may lose value.*



# Account Contributions

- Online
- Automatic Contributions - Make it Easy!
  - Set up automatic contributions from your payroll or bank account.
- Contribution Coupon
  - Mail a check.
- Transfer or Rollover from Another Account
  - NextGen 529 accounts may also be funded through transfers from Custodial accounts, other Qualified Tuition Programs, Coverdell Education Savings accounts or U.S. Savings Bonds.



## Encourage Others to Give a Gift

- Family and friends can also contribute\* – great way to celebrate birthdays and holidays!
- Don't leave money on the table.



*\* Persons other than the account owner who make contributions will have not subsequent control over the funds contributed to a NextGen 529 account. Only the NextGen account owner will receive confirmation of account transactions and may direct transfers, rollovers, investment changes, withdrawals and change the account beneficiary (as permitted under federal law). Third party contributors may subject NextGen account owners to tax consequences. NextGen account owners and third party contributors should consult their tax advisors to discuss income or gift consequences.*

- Verbal
  - Call and request a withdrawal on the phone.
- Online
  - Log into your NextGen 529 account
- Paper
  - Complete and mail a Withdrawal Request Form.
  - The paper process may take up to two weeks.



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[GRANTS FOR MAINE RESIDENTS](#)



**It's About Your  
Future Success**

[OPEN A NEXTGEN 529 ACCOUNT »](#)

**Help your child succeed by opening and making contributions to a NextGen 529 account!**

NextGen 529 is Maine's section 529 plan, which many families use to save for higher education.

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**3** Make a Contribution

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