

The ABLE Act and More: Inside Obama's Education Agenda

The Obama administration has proposed and/or initiated a number of incentives to help give all Americans a fair chance at attaining a solid education. Even so, college is expensive. That's why it is important to start early to plan for the cost of higher education.

The average cost of tuition, fees, and room and board at a four-year public college currently runs nearly \$19,000 per year -- and the average private college costs more than \$42,000 annually.

In his sixth State of the Union address, President Obama outlined a number of initiatives aimed at improving the lives of middle-class American families. His proposals ran the gamut from offering new child care credits to making education more accessible -- and affordable -- for all.

The ABLE ACT

With education central to his agenda, the president recently signed into law legislation aimed at giving disabled Americans the opportunity to save for education and other related expenses in a tax-friendly vehicle without jeopardizing their federal benefits.

Modeled after 529 college savings plans, money invested in "Achieving a Better Life Experience" (ABLE) accounts can be withdrawn tax free to pay for qualified expenses including education and job training, transportation, health care, and housing.¹ Individuals can amass as much as \$100,000 in such accounts without affecting their eligibility for Social Security Income (SSI) and other federal benefits. Further, Medicaid coverage will not be affected by how much money is accrued in an ABLE account.

Other Education Incentives

To achieve the goal of placing a good education within the reach of all who are willing to work for it, the White House has taken and/or proposed the following initiatives:

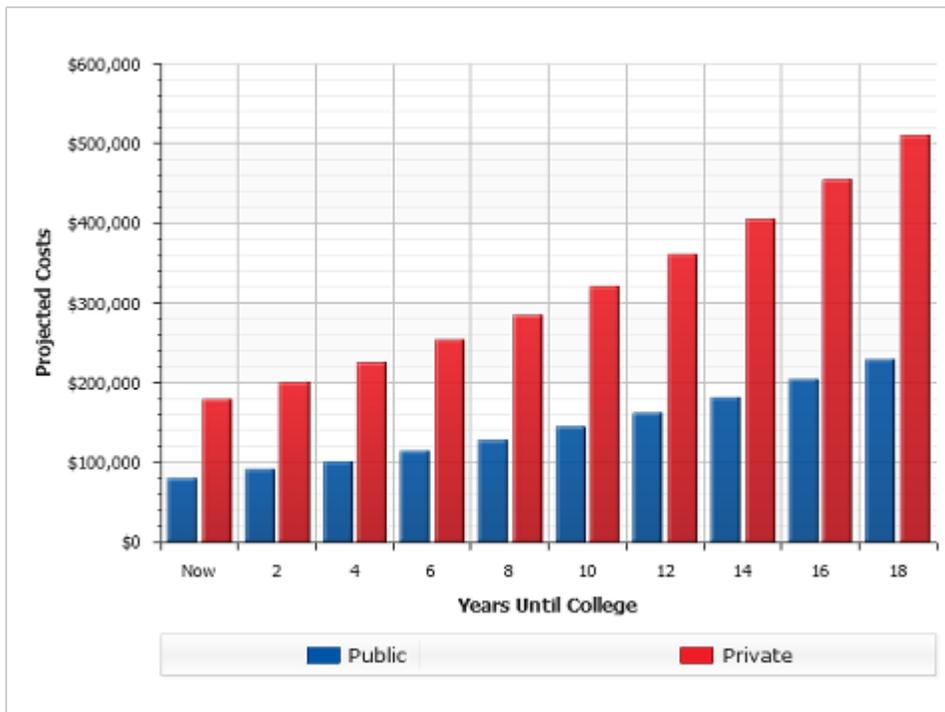
- **Doubling investments in Pell Grants.** The maximum Pell Grant award has been raised to \$5,730 for the 2014-2015 academic year -- a nearly \$1,000 increase since 2008. In addition, the number of Pell Grant recipients has expanded by 50% over that same time, providing college access to millions of additional low-income and middle-class students across the country.²
- **Student loan repayment options.** Borrowers looking to reduce their loan payments can choose an income-based plan in which payments are tied to a portion of their income. The newest of these plans, "Pay As You Earn," requires borrowers to pay roughly 10% of their income. After 20 years, any balance still outstanding may be forgiven. The Department of Education estimates that 1.6 million Direct Loan borrowers will be able to lower their payments by using this plan.³
- **Capping student loan interest rates.** In 2013, President Obama signed legislation changing how student loan interest rates are determined. While the rates on new loans are still fixed for the life of the loan, each year's new loans will have different fixed rates, based on current market rates. For instance, the rate for

new Federal Stafford Loans is 4.66% in 2014-2015 compared with 3.86% for the 2013-2014 academic year.⁴ The White House claims that the new law will save the average undergraduate student \$1,500 over the life of the loan.²

- **Strengthening community colleges.** The White House has called for a new partnership with states to ensure that the first two years of community college are free for responsible students, whether they are completing the first half of a bachelor's degree or earning skills to go directly into the workforce. If all states participate in the proposed "America's College Promise" program, an estimated 9 million students could benefit, and a full-time community college student could save an average of \$3,800 in tuition per year.²

Planning for the Cost of Higher Education

Despite all of these incentives, educating a child is still a costly endeavor. The average cost of tuition, fees, and room and board at a four-year public college currently runs nearly \$19,000 per year -- and the average private college costs more than \$42,000 annually. Given rising costs, as the chart below illustrates, it could require more than \$500,000 to send today's newborn through four years of private college by the time he or she turns 18. So it pays to start saving early.



Source: ChartSource®, Wealth Management Systems Inc. Based on data published by the College Board for the 2014-2015 academic year. Chart is based on hypothetical growth rates; your results will vary. Copyright © 2015, Wealth Management Systems Inc. All rights reserved. Not responsible for any errors or omissions.

Tax-Advantaged Savings Strategies

There are many ways to save for college -- some of them tax advantaged.

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- **Coverdell Education Savings Accounts.** These accounts allow you to contribute up to \$2,000 per year, per child; earnings accumulate tax free, and withdrawals can be made tax free for qualified education expenses -- including elementary and secondary school costs.
- **529 Plans.** These state-sponsored plans come in two forms: prepaid tuition plans that allow you to pay tomorrow's tuition at today's prices, and college savings plans that let you invest your contributions. Some savings plans now have lifetime contribution limits as high as \$400,000 per beneficiary. All earnings and distributions are tax free if used for qualified higher education expenses. By investing in a 529 plan outside of the state in which you pay taxes, you may lose the tax benefits offered by your state's plan. Tax treatment at the state level may vary.
- **UTMA/UGMA Accounts.** Rules permit individuals to make annual gifts of up to \$14,000, gift tax free, to minors. Some earnings are taxed at the child's rate.

As mentioned earlier, there are also a variety of federal and state college funding options and assistance programs available. Contact a qualified financial professional to learn more.

¹Disability Scoop, "Obama Signs ABLE Act," December 22, 2014.

²The White House, "Education -- Knowledge and Skills for the Jobs of the Future," February 2, 2015.

³Debt.org, "Pay As You Earn Student Loan Repayment Plan," June 19, 2013.

⁴StaffordLoan.com, "Interest Rates and Fees on Federal Stafford Loans," February 2, 2015.