HAVE YOU CONSIDERED ALTERNATIVE WAYS TO PAY FOR COLLEGE?

There are many options outside of the traditional methods to help you cover the cost of college. The pros and cons of several of these alternative approaches are listed below to help you determine if they may work for you.

TYPE OF LOAN	401K LOAN	INDIVIDUAL RETIREMENT ACCOUNT (IRA) DISTRIBUTION	HOME EQUITY LOAN	EMPLOYER REIMBURSEMENT PROGRAM
BORROWER	Parent	Parent	Parent	Student
PROS	Interest rates aren't dependent on your credit score, which could help if a low credit score is making it hard for you to qualify for other loans. The borrower pays themselves back, not a third-party lender.	Putting funds toward qualified higher education expenses before age 59½, may avoid[3] the 10 percent early-withdrawal penalty. If the IRA owner is younger than 59½ and has a Roth IRA, they may be able to withdraw principal tax free. Otherwise, normal IRA distribution rules apply. Please consult a qualified tax professional.	Because it is secured by the borrower's house, more money can often be borrowed than with student loans. This can be an advantage if the borrower has other debt to consolidate or a home improvement project to work on.	Free money! A chance for a student to advance their education while advancing their career.
CONS	Tapping into long-term savings means less saved for retirement. There's a 10% early-withdrawal penalty[1] for those younger than 59½ if the loan is not paid back. Taxes on the withdrawal may become due if the loan is not paid back.	Tapping into long-term savings means less saved for retirement. If the IRA owner's IRA contributions are made with pre-tax dollars, they'll need to pay the taxes in full at the time of withdrawal. If contributions are made with taxed dollars, they may need to pay taxes on the earnings of the investment at the time of withdrawal.	If the home is in need of repairs (and there isn't savings or insurance to cover the cost), the borrower may not be able to take out another loan on the home to cover the bill. There is not usually loan forgiveness, so defaulting on repayment means risking the home. The borrower can no longer deduct the interest paid[4] when the funds are used for student loans or other personal debt or expenses.	The student typically needs to be working at least part-time for these benefits to kick in, which means it could take longer for them to graduate. The IRS limits tax-free tuition benefits to $5,250[5] annually. (Some employers cover more.) Typically not available until the employee is over 18.
FINE PRINT	The borrower is legally obligated to pay back the money within five years,[2] usually via quarterly or monthly payments. If the borrower gets laid off or changes jobs, they typically have to pay back the loan or consider the loan as income, potentially incurring taxes and penalties. Please seek professional tax advice.	Because the IRA owner is withdrawing money from their IRA (not loaning it to themselves), the money may be treated as income. This could affect how much financial aid the student can receive and increase the IRA owner's income tax burden. The only way to get money back into the IRA owner's IRA is to make contributions and only if permitted — potentially up to: ▪ $6,000 annually if the IRA owner is under 50 and ▪ $7,000 annually if the IRA owner is 50+. Please consult a qualified tax professional.	Timetables for repayment vary depending on the terms of the loan.	Confirm if there are any stipulations attached to the money. For example, only covering certain classes and years of service.
CAN BORROWER DEFER PAYMENT?	No	Since this is a withdrawal (not a loan), no money has to be repaid.	No	This type of assistance is typically repaid to the student's employer through their commitment to work at the company for a certain number of years following school. They may be required to repay the tuition benefit if they leave the company before the required years of service.

Before you decide how to pay for college, we encourage you to consult a financial planner for more details and assistance creating the right strategy. Also, seek tax advice before taking any loans or withdrawals from a tax-deferred savings program, such as a 401(k) or an IRA.

COLLEGE COVERED®
POWERED BY DISCOVER STUDENT LOANS

SOURCES:

1. https://www.irs.gov/taxtopics/tc558
2. https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-loans
3. https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions
4. https://www.irs.gov/pub/irs-pdf/p5307.pdf
5. https://www.irs.com/articles/employer-tuition-reimbursement

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