

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)	HOME EQUITY LOAN	EMPLOYER EDUCATIONAL ASSISTANCE PROGRAM
BORROWER	▶ Parent	▶ Parent	▶ Parent	▶ Student
PROS	<ul style="list-style-type: none"> ▶ Interest rates aren't dependent on credit score, which could help if a low score is making it hard to qualify for other loans. ▶ Borrowers pay themselves back, not a third-party lender. 	<ul style="list-style-type: none"> ▶ Putting funds toward <u>qualified higher education expenses</u>³ before age 59½ may avoid the 10% early-withdrawal penalty. ▶ If the IRA owner is younger than 59½ and has a Roth IRA and has satisfied the holding period, they may be able to withdraw the contributions tax-free. 	<ul style="list-style-type: none"> ▶ More money can be borrowed compared to student loans. ▶ This can be an opportunity for the borrower to consolidate other debt. 	<ul style="list-style-type: none"> ▶ Free money! ▶ A chance for the student to advance their education while advancing their career.
CONS	<ul style="list-style-type: none"> ▶ Tapping into long-term savings may mean less saved for retirement. ▶ There's a 10% <u>early-withdrawal penalty</u>¹ for those younger than 59½ if the loan is not paid back. ▶ Taxes on the withdrawal may be due if the loan is not paid back. 	<ul style="list-style-type: none"> ▶ Tapping into long-term savings means less saved for retirement. ▶ If 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. 	<ul style="list-style-type: none"> ▶ If the home needs repairs, the borrower may not be able to take out another loan on the home to cover the bill. ▶ Defaulting on repayment means risking the home. ▶ The borrower can't deduct the <u>interest paid</u>⁵ when the funds are used for student loans. 	<ul style="list-style-type: none"> ▶ The student typically needs to be working at least part-time for these benefits to kick in, which could delay graduation. ▶ The IRS limits tax-free <u>tuition benefits</u>.⁶ ▶ These benefits are not typically available until the employee is 18.
FINE PRINT	<ul style="list-style-type: none"> ▶ The borrower is <u>legally obligated</u>² to pay back the money within five years. ▶ 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. 	<ul style="list-style-type: none"> ▶ 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 is to <u>make contributions</u>.⁴ 	<ul style="list-style-type: none"> ▶ Timetables for repayment vary depending on the terms of the loan. 	<ul style="list-style-type: none"> ▶ There may be stipulations attached to the money like years of service or only certain degrees covered.
CAN BORROWER DEFER PAYMENT?	▶ No	▶ No money has to be repaid since this is a withdrawal (not a loan).	▶ No	▶ No money has to be repaid unless the student leaves their employer before completing their 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.

SOURCES:

1. <https://www.irs.gov/taxtopics/tc558>
2. <https://www.irs.gov/taxtopics/tc558>
3. <https://www.irs.gov/taxtopics/tc557>
4. <https://www.irs.gov/newsroom/401k-limit-increases-to-22500-for-2023-ira-limit-rises-to-6500>
5. <https://www.irs.gov/pub/irs-pdf/p5307.pdf>
6. <https://www.irs.com/en/articles/employer-tuition-reimbursement>
Fred Amrein, founding principal of Amrein Financial and College Affordability LLC and author Financial Aid and Beyond: Secrets to College Affordability
Joseph Orsolini, co-founder of College Aid Planners
Ashley Feinstein, founder of The Fiscal Femme



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