

Funding your Educational Future



A Guide to Financial Aid Resources for Parents and Students

Dear Friends,

In this increasingly competitive global economy, access to college and continuing education is more than just a goal for the new generation; it is an urgent national priority. The economic future of the United States depends on the education of the incoming workforce. The Obama Administration set a goal for America: by 2020, America would once again have the highest proportion of college graduates in the world. Achieving this goal will require additional investments from the federal government to make higher education more affordable, and to increase access to graduate, technical, and other non-traditional education opportunities.

In this document you will find information concerning financial assistance for individuals interested in college, graduate education, and other educational opportunities. There are many forms of assistance available, including grants, loans, work-study opportunities, and tax benefits for students and their families.

There are many sources of information about education financing. The U.S. Department of Education publishes a great deal of information regarding access to financial aid. It can be found at: <http://federalstudentaid.ed.gov/>. There, you will find information regarding different federal loan programs, contact numbers, and a checklist to help you in your financial aid application process.

The State of Connecticut also operates the Education & Employment Information Center (EEIC) which provides free guidance to job seekers and assistance to students and families navigating the financial aid process. You can access an EEIC counselor toll-free at (800) 842-0229 or at edinfo@ctdhe.org. The EEIC website contains links to job search resources as well as state and federal student aid programs. It can be found at <http://www.ctohe.org/edinfo/default.shtml>

Finally, please let my office be a resource to you. My staff would be happy to discuss student aid policy with you. My constituent services office in Hartford can be reached at (860) 258-6940.

Good luck in your educational pursuits!



Richard Blumenthal

United States Senate

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Preface

This guide is meant to be a helpful resource for individuals seeking to improve the affordability of education for themselves and their families. Here is a list of steps to keep in mind when you approach the financial aid process:

- 1.) Complete and submit the Free Application for Federal Student Aid (FAFSA). The FAFSA is required in order to be considered for federal and state assistance, and can be completed starting January 1st of the year of enrollment. Be aware that different institutions may have different deadlines for applying for financial aid, and you should make sure you complete the FAFSA well in advance of these deadlines.
- 2.) Consider and maximize your grant opportunities, as well as any private, non-profit, or school-based scholarships for which you may be eligible based on your FAFSA and academic qualifications.
- 3.) Determine your additional financial need, and apply for appropriate federal loans in order to finance the remainder, keeping in mind that federal loans constitute a **binding legal agreement** which you are obligated to repay over a certain time period.

Below is a list of do's and don'ts concerning the financial aid process:

Do apply for financial aid by completing the FAFSA. There are many types of financial aid available, and many middle class families are surprised at the amount of aid for which they may be eligible. You won't know what you qualify for if you do not apply.

Do maximize your use of federal loans before considering private loans. Federal loans have fixed interest rates which tend to be lower over the life of the loan than their private counterparts.

Don't take out a loan without fully considering the terms, repayment period, and your career objectives. Accepting a loan means accepting a binding obligation to repay at preset terms. As you plan your education, make sure that your career goals will allow you to pay off your loans. Failure to pay off loans can have long-lasting negative consequences.

Don't take out a private loan without ensuring that the lender meets the disclosure requirements discussed later in this guide.

FAFSA and the initial aid application process

The federal financial aid process, as well as that of many states, begins with the completion and filing of the Free Application for Federal Student Aid (FAFSA). This master application is used to determine financial need. The FAFSA for a given school year can be filed starting on January 1st of that year. **Additionally, individual schools may have their own financial aid deadlines of which you should be aware.**

The FAFSA can be filled out online at www.fafsa.ed.gov. Paper copies of the FAFSA can also be found at this website.

While the FAFSA can be amended after it is filed, your chances of getting the maximum amount of aid are greatly increased by a timely filing of an accurate FAFSA. **Therefore, submitting an accurate application the first time is very important.** Below are some resources for applicants to help with the FAFSA process.

The FAFSA Help Website

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

The Department of Education FAFSA Completion Guide

http://studentaid.ed.gov/students/publications/completing_fafsa/index.html

The CT Office of Higher Education Financial Aid Website

<http://www.ctohe.org/SFA/default.shtml>

After you have completed and submitted the FAFSA, the financial aid process generally turns to the financial aid office of the school or schools to which you are applying or which you plan to attend. You should contact these offices as soon as possible, and ask them to help walk you through their financial aid processes and deadlines so that you can receive the maximum amount of financial aid.

Grants

When planning how to pay for an education, look first toward grants. Grants are a form of financial assistance where the federal or state government, an educational institution, or another organization offers aid for education financing *that does not need to be repaid*. Determining your eligibility for grants and participating in all programs for which you are eligible can significantly lower the cost of an education, and ease the burden that this cost places on individuals and families.

The bulk of education grants come from the federal or state government. In order to determine your eligibility and apply for federal and state grants, you will first need to complete and submit the FAFSA (discussed on page 6) and contact your school's financial aid office.

Below is a listing of the major federal and state grant programs, along with links to further information.

Federal Grants

Pell Grant: The Pell grant is a need-based grant aimed at low-income individuals. It offers a maximum of \$5,550 for the 2011-2012 award year, based on need and availability.

Any Pell-eligible student whose parent or guardian died as a result of military service in Iraq or Afghanistan after 9/11 will receive the maximum, provided he or she is less than 24 years of age or enrolled at least part time in college. Only one Pell award can be received per year. Individuals who received a Pell Grant for the first time on or after July 1, 2008 can only receive a Pell grant for up to 18 semesters or an equivalent length of study.

For more information, visit:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/PellGrants.jsp>

Federal Supplemental Educational Opportunity Grant (FSEOG): The FSEOG is a need-based grant for students with exceptional financial need.

Pell recipients with the lowest expected family contribution are considered first. Recipients may be awarded between \$100 and \$4,000 per year, depending on availability, need, and school policies.

For more information, visit:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/FSEOG.jsp>

Iraq and Afghanistan Service Grant: The Iraq and Afghanistan Service grant is available to students whose parent or guardian died as a result of service performed in Iraq or Afghanistan after September 11, 2001.

Recipients must be ineligible for a Pell Grant, due only to having less financial need than is required to receive Pell funds. Recipients must be under 24 years old, or enrolled in college at least part-time at the time of the parent's or guardian's death. The award equals the amount of a maximum Pell grant for the award year, and may not exceed the cost of attendance for that award year.

For more information, visit:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/IraqAfghanServiceGrant.jsp>

Teacher Education Assistance for College and Higher Education (TEACH) Grant: This grant is available for students enrolled in coursework aimed toward a career in teaching.

Recipients must meet specified academic requirements, and must sign an agreement to serve as a full-time teacher in a high-need field in a public or private elementary or secondary school, while serving low income students. Recipients may be awarded up to \$4,000. If a student receives a TEACH grant, but does not complete 4 years of qualified teaching, the grant converts to an unsubsidized Stafford loan.

For more information, visit:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/TEACH.jsp>

State Grants

Connecticut Aid for Public College Students: The Connecticut Aid for Public College Students program is open to Connecticut residents attending a two- or four-year public college or university in Connecticut. The amount available is limited only to unmet financial need, and is based on financial need demonstrated in the FAFSA.

CT Independent College Student Grant Program: The Connecticut Independent College Student Grant Program is available to Connecticut residents attending an independent college or university in Connecticut. Recipients may be awarded up to \$8,166 per year, based on financial need demonstrated in the FAFSA.

CT Minority Teacher Incentive Grant/Weisman Teacher Scholarship: These two programs are available to minority juniors and seniors at a Connecticut college or university teacher

preparation program who are nominated by an education dean. The Weisman program is only available to those enrolled in math or science middle or high school teacher preparation programs. The programs provide up to \$5,000 in grants for up to two years and loan reimbursement of up to \$2,500 per year for up to four years of teaching in Connecticut public schools.

For more information on state grant programs, visit:

<http://www.ctohe.org/sfa/>

Grant	Eligibility	Award Amount	Additional Notes or Restrictions
Pell Grant	Need-based	Maximum of \$5,550, based on need and availability.	Only one Pell award can be received per year. If you received a Pell Grant for the first time on or after 7/1/2008, you can only receive a Pell grant for up to 18 semesters or equivalent. Any Pell-eligible student whose parent or guardian died as a result of military service in Iraq or Afghanistan after 9/11 will receive the maximum, provided he or she is less than 24 years of age or enrolled at least part time in college.
Federal Supplemental Educational Opportunity Grant	Need-based, for students with exceptional financial need. Pell recipients with the lowest expected family contribution are considered first.	Between \$100 and \$4,000 per year, depending on availability, need, and school policies	
Iraq and Afghanistan Service Grant	Must be a student whose parent or guardian died as a result of service performed in Iraq or Afghanistan after September 11, 2001. Must be ineligible for a Pell Grant due only to having less financial need than is required to receive Pell funds. Must be under 24 years old, or enrolled in college at least part-time at the time of the parent's or guardian's death.	The award equals the amount of a maximum Pell Grant for the award year – not to exceed the cost of attendance for that award year	

Grant	Eligibility	Award Amount	Additional Notes or Restrictions
TEACH Grant	Must be enrolled in coursework aimed toward a career in teaching. Must meet specified academic requirements. Must sign an agreement to serve as a full-time teacher in a high-need field in a public or private elementary or secondary school serving low income students.	Up to \$4,000	If a student receives a TEACH grant, but does not complete 4 years of qualified teaching, the grant converts to an unsubsidized Stafford loan
CT Aid for Public College Students	CT residents attending public colleges or universities, based on financial need	Up to unmet financial need	Students must file a FAFSA to qualify.
CT Independent College Student Grant Program	CT residents attending independent colleges or universities in CT	Up to \$8,166 per year	Students must file a FAFSA to qualify.
CT Minority Teacher Incentive/ Weisman Teacher Scholarship	Minority junior or senior enrolled in a participating CT college or university teacher preparation program. Weisman nominees must be enrolled in math or science middle or high school teacher preparation programs.	Grants up to \$5,000 a year for 2 years; loan reimbursement of \$2,500 a year for up to 4 years of teaching in a CT public school.	Must be nominated by an education dean; nominations due on October 15 th

Loans

After determining grant eligibility, most students and their families take out loans to finance an education. Federal and state loans have several advantages. They offer fixed interest rates, so you can plan repayment knowing that costs will not dramatically increase over the life of the loan. Some are subsidized, meaning that the government will cover the costs of interest payments during certain times. Additionally, federal and state loans offer flexibility in repayment and generous deferment, forbearance, and income based repayment options.

It is important to remember that while loans can be an appropriate way to finance an education, loans constitute a binding financial obligation over an extended period of time. When making the decision to take out loans, consider the fact that you will owe a particular amount over a particular time period, and make sure that your career objectives will allow you to repay your debts. Very few protections exist for student loans that are in default, and failure to repay has serious negative financial consequences.

Federal loan eligibility, much like grant eligibility, is based on the FAFSA. Once you have completed the FAFSA, contact your school's financial aid office to apply for federal loans. To apply for the state loan program (CHESLA), visit the program website for instructions.

Federal Loans

Perkins Loan: The Perkins loan is a low-interest loan for students with exceptional financial need, as determined by the FAFSA. The maximum loan is \$5,500 per year, and the interest rate is 5%, fixed. The loan carries no origination fee or other charges, and there is a nine month grace period between the graduation/loss of full-time status and the repayment period.

For more information, visit:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/campusaid.jsp#03>

Stafford Loan: Stafford loans are offered in two forms. The first are known as “subsidized” Stafford loans, where the federal government pays the interest on the loan while a student is enrolled at least-half time. With an unsubsidized Stafford loan, the borrower is responsible for the interest from the beginning of the loan. Depending on what year of school the borrower is currently in, the maximum loan ranges from \$5,500 per year of subsidized loans to \$12,500 per

year, of which no more than \$5,500 may be subsidized. The interest rate is 6.8%, and there is a 1% origination fee. The grace period is six months.

For more information, visit:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp>

PLUS Loans: PLUS loans are made either to parents (in the case of undergraduate students) or directly to students (in the case of graduate and professional students). There is no need requirement, but borrowers must pass a credit check. The maximum loan is the cost of attendance, reduced by any other financial aid the student receives. There is a 4% origination fee, and the interest rate is 7.9%. The repayment period begins when the loan is fully disbursed, but a parent may defer payments while the student is in school, and for an additional six months after graduation.

For more information on PLUS loans for graduate and professional students, visit:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/PlusLoansGradProfstudents.jsp>

For more information on PLUS loans for parents, visit:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/parentloans.jsp>

State Loans

CHESLA Loans: CHESLA loans are made to students enrolled in a Connecticut non-profit college or Connecticut residents enrolled in non-profit colleges anywhere in the country. Families may borrow up to the full cost of education, reduced by other financial aid. The loan offers a fixed interest rate, with a current rate of 5.95%. There is a reserve fee of 3% of the loan amount. The application considers the ability to repay the loan and the applicant's credit history, and generally requires a parent or other co-signer to co-apply.

For more information, visit:

www.chesla.org

Loan forgiveness

There are many public and private loan assistance or forgiveness programs. For example, the federal government offers forgiveness/cancellation programs for some teachers who are repaying Stafford or Perkins loans. More information can be found at:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/teachercancel.jsp?tab=repaying>.

Many other programs exist to forgive loans or assist with loan repayment for members of the military, individuals in public service programs such as VISTA or AmeriCorps, or particular professions. For more information, visit: <http://www.finaid.org/loans/forgiveness.phtml>

Loan	Borrower	Eligibility	Amount	Fees/Charges	Interest Rate For 2012/2013 loans	Grace Period
Perkins	Student	Students with "exceptional financial need"	Up to \$5,500 per year, with a max of \$27,500 for undergraduate study	No origination fee or other charges	5%	Nine month grace period post-graduation/loss of full time status. Repayment begins after this point.
Stafford	Student	Undergraduate students with financial need may qualify for subsidized Stafford loans. For unsubsidized Stafford Loans, students need not demonstrate financial need	Up to \$5,500 per year, depending on the year, with an aggregate limit of \$57,500, depending on the percentage of loan which is subsidized, and parent eligibility for PLUS loans	1% origination fee	6.80%	Six month grace period post-graduation/loss of full time status. Repayment begins
PLUS Loan	Graduate or professional student, or parent or guardian of undergraduate student	For parents of dependent students who pass a credit check, or have a co-signer who can pass a credit check.	Up to cost of attendance, less other financial aid the student receives	4% origination fee	7.90%	Repayment period begins when loan is fully disbursed, but parent may defer payment while the student is in school, and may defer an additional six months afterword.
CHESLA Loan	Student, with co-signer	Any undergraduate, graduate, or professional student who is creditworthy and has a minimum AGI of \$20,000	Up to cost of attendance, less other aid received. Maximum of \$125,000.	3% reserve fee	5.95%	Six month grace period post-graduation. Undergraduate borrowers are responsible for interest payments while in school. Graduate/professional borrowers may defer interest while in school and up to 6 months post-graduation.

Federal Work-Study

Another form of financial assistance for college is the federal work-study program. Through this program, the federal government provides funding to schools so that they may employ eligible students in on-campus or related employment to supplement their education funding. Each student is awarded a particular work-study amount, and schools pay students with an hourly rate based on the amount of money they have been awarded and the hours they are scheduled to work. Students are not allowed to work more than the amount of hours that their work-study award pays for.

As with federal grants and loans, work-study eligibility and award levels are determined by the FAFSA. To apply, complete and submit the FAFSA, and contact your school's financial aid office.

Considerations for non-traditional students

Particularly in the current economic climate, more and more individuals are seeking new skills and employment. While we traditionally think of college as a post-high school pursuit, many individuals now go back to school for Associates, Bachelor's, or Certificate programs, and adult and continuing education plays a key role in developing our workforce.

Fortunately, many programs for non-traditional students are available and eligible for financial aid. For federal aid, the application process is similar to that for aid for college or traditional graduate programs. Students will need to complete and submit a FAFSA, and contact the financial aid office at their institution to determine the types of aid for which they qualify. However, non-traditional students should take a few things into special consideration.

Programmatic Eligibility

In order to receive federal aid, students must attend an institution that participates in Title IV. While this is generally true of traditional undergraduate and graduate institutions, non-traditional education sometimes takes the form of certification or trade instruction at smaller, business-connected institutions that may or may not participate in Title IV. Prospective students should visit <http://nces.ed.gov/collegenavigator/> to determine if their potential school is a Title IV participating institution.

Grant Eligibility

Non-traditional students are eligible for most forms of federal aid. However, students who have already earned a bachelor's degree, or another initial professional degree, are not eligible to receive Pell grants, with the exception being state-required teaching licensing programs.

Borrowing Limits

Many non-traditional students are 24 years of age or older. These students are considered independent for tax purposes, meaning that they are eligible for increased Stafford loan limits. This group may borrow an additional \$4,000 per year during their freshman and sophomore years, and an additional \$5,000 per year junior year on.

Military Benefits

Several benefits exist for military personnel and their families. Depending on their dates of service and service status (active or reserve), members of the military, their families, and veterans can qualify for a number of education financing programs. The Post 9/11 GI Bill and the Montgomery GI Bill are the most common programs for veterans and members of the military.

The Post 9/11 GI Bill: Through the Post 9/11 GI Bill, eligible individuals (individuals with least 90 days of aggregate service on or after September 11, 2001, or individuals discharged with a service-connected disability after 30 days) are eligible for education benefits.

Individuals may receive full tuition and fees support while attending a public institution of higher learning in-state. Individuals attending private or foreign institutions are eligible for tuition and fee support of up to \$17,500 per academic year. The program also offers a monthly housing allowance for students with dependents at the location of the school, with the amount varying based on location. Other features of the program include an annual books & supplies stipend, and a one-time rural benefit. In some cases, the program's benefits may be transferred to an eligible dependent.

For more information, visit:

http://www.gibill.va.gov/benefits/post_911_gibill/index.html

The Montgomery GI Bill: The Montgomery GI Bill is available to members of the armed forces and offers educational assistance based on type of service and individual contributions.

The bill provides education benefits to military personnel who choose to buy in to the program by contributing \$100 per month. For this contribution, members who meet certain service-length obligations are eligible for up to 36 months of education benefits, which can be used for degree and certificate programs, flight training, apprenticeship/on-the-job training and correspondence courses.

For more information, visit:

http://www.gibill.va.gov/benefits/montgomery_gibill/index.html

The Reserve Educational Assistance Program (REAP): The Reserve Educational Assistance Program (REAP) is a program for individuals who are members of the reserve components of the

armed forces and are called or ordered to active service in response to a war or national emergency by the President or Congress after September 10, 2001.

REAP provides education benefits to reserve personnel in a similar fashion to the Montgomery GI bill. Benefits are based on a percentage of the Montgomery GI Bill benefits, determined by number of days on continuous active duty.

For more information, visit:

http://www.gibill.va.gov/benefits/other_programs/reap.html

Survivors' & Dependents' Educational Assistance Program (DEA): Survivor and Dependents Assistance is available to dependents of certain veterans to assist with their education costs.

Eligible individuals are the sons, daughters, or spouses of veterans who are killed or permanently and totally disabled as a result of active service, reported missing in action or captured, forcibly detained by a foreign government, or receiving hospital or outpatient treatment for a disability and likely to be discharged for that disability. The benefit provides up to 45 months of educational assistance.

For more information, visit:

http://www.gibill.va.gov/benefits/other_programs/dea.html

National Call to Service Program: The National Call to Service Program is an incentive program for individuals who serve in the armed forces or a combination of the armed forces and a domestic national service organization such as AmeriCorps.

Eligible individuals will have served in a particular military occupational specialty for a minimum of 15 months, followed by an additional service period in active duty or the selected reserve, followed by additional service in the armed forces or a domestic national service organization. Participants may choose from a variety of benefits, such as a cash bonus, monthly allowance, or repayment of qualified student loans up to \$18,000.

For more information, visit:

http://www.gibill.va.gov/benefits/other_programs/national_call_to_service_program.html

The Departments of Defense and Veteran's Affairs offer a variety of additional programs that include educational benefits. For a comprehensive look at these programs, visit:

<http://www.gibill.va.gov/>

Federal Tax Incentives and Higher Education:

In addition to loans and grants, the federal government supports individual and family investments in higher education through the tax code. Through tax credits, deductions, and exclusions, it is possible for individuals and families to recoup education expenses up to several thousand dollars. Below are listed some of the most common and accessible tax incentives for education, and some of their characteristics. A comprehensive table from the Congressional Research Service follows. The Internal Revenue Service publishes a guide to federal tax benefits for higher education, which can be found at: <http://www.irs.gov/publications/p970/index.html>.

Tax benefits for higher education can allow individuals and families to recoup some of their investments in education. However, please note that credits and deduction benefits take the form of a once-per-year financial benefit during tax season. These are not a means of financing an education up front.

Tax Credits

Tax credits are programs which reduce, dollar-for-dollar, your tax owed in a given year. They come in two forms, non-refundable and refundable. Non-refundable tax credits can lower your tax bill, but they cannot take it into the negative; for example, a family which has a tax liability of \$5,000 dollars and is eligible for \$6,000 in non-refundable tax credits would see its tax bill reduced to \$0, but would not receive a further payment from the government. In contrast, a refundable tax credit can result in a *negative* tax bill. For example, the same family above with a tax liability of \$5,000 would have its tax bill reduced to \$0, and receive a \$1,000 check from the government if it were eligible for \$6,000 in *refundable* tax credits.

Education Tax Credits

Hope Credit: The Hope Credit is a nonrefundable tax credit to support students and their families in the first two years of an educational program. It provides up to \$1,800 in tax credits per student in families meeting the criteria. The credit amount is adjusted based on the tax filer's Modified Adjusted Gross Income (MAGI), and filers who pass an inflation-adjusted income threshold are ineligible for the credit.

American Opportunity Credit: The American Opportunity Credit temporarily replaced the Hope credit and remains in effect through 2012. It is partially refundable and allows for a maximum credit of \$2,500 per student in the family meeting the criteria. The credit also has a MAGI phase out over a certain income.

Lifetime Learning Credit: The Lifetime Learning Credit provides a non-refundable tax credit of up to \$2,000. Taxpayers claiming the Hope or AOC credits for a particular student may not use that student's expenses to claim the Lifetime Learning Credit

Deductions

Tax deductions are policies which allow you to reduce your reported taxable income, thus reducing your overall tax bill. For example, an individual earning \$45,000 per year and qualifying for \$5,000 in tax deductions would only be taxed on \$40,000 of earnings, thus proportionally reducing the overall tax bill.

Education Tax Deductions

Tuition and fees deduction: A taxpayer may take an above-the-line deduction of up to \$4,000 for tuition and fees paid for a student at an eligible institution. The deduction does not cover books or other personal expenses, and taxpayers cannot deduct expenses claimed for the business expenses deduction, education tax credits, or expenses paid for from a Coverdell education savings account or U.S. education savings bonds.

Business expense deduction: An individual taxpayer is allowed to deduct education expenditures as a business expense if the education (1) maintains or improves a skill in the taxpayer's present work and (2) is required by the taxpayer's employer to maintain salary, status, or job. Such education is not qualified if it is needed to meet the minimum educational requirements of the taxpayer's present business, or if it is part of a program of study that would qualify the taxpayer for a new trade or business. Deductible expenses include tuition, books, supplies, lab fees, and similar items; certain transportation and travel costs; and other education expenses, such as costs of research and typing. The same deductible expenses may not be deducted under the tuition and fees deduction.

Student loan interest deduction: Taxpayers may deduct interest paid on student loans up to \$2,500. Taxpayers reporting \$75,000 in AGI (\$150,000 for couples filing jointly) cannot claim this deduction. Before claiming the student loan interest deduction, taxpayers must reduce their qualified higher educational assistance benefits by any payments made from the following tax free items: employer provided educational assistance benefits; tax-free withdrawals from a Coverdell Education Savings Account (formerly known as an education IRA); tax-free withdrawals from a qualified tuition program; U.S. Savings Bond interest that is excluded from income because it was used to pay qualified higher education expenses; certain scholarships; veteran's educational assistance benefits; or any other nontaxable payments received for educational expenses.

Incentives for Saving for Education

Qualified Tuition Programs (QTP): QTPs are prepaid plans run through an institution of higher education or savings plans run through a state agency or designated company. Connecticut offers plans through TIAA-CREF and The Hartford. Taxpayers contribute money which is allowed to grow in a tax-deferred account. If funds are withdrawn to pay for qualified higher education expenditures, no income tax is due; if funds are withdrawn for other reasons, they are considered taxable income. There are no income limits or annual contribution limits. Prior to determining the tax-free portion of the distribution, qualified expenses must be reduced by all tax-free educational assistance. Distributions from a QTP and a Coverdell cannot be allocated to the same qualified expenses and expenses used for the QTPs cannot be used to claim any education credits. Unlike a Coverdell, the account has no designated beneficiary.

Coverdell Savings Accounts: These accounts are offered by banks and financial institutions nationwide. Individuals may contribute up to \$2,000 per child to a tax-preferred savings account with a designated beneficiary. The account may be used to pay for elementary and secondary, as well as post-secondary, education. After 2012, the contribution limit will decrease to \$500, and the ability to use accounts to pay for elementary and secondary education will be removed.

Program	Type of Benefit	Annual Limit	Qualifying Expenses	Qualifying Education Level	Income Phase Out Range	Expiration
American Opportunity Credit	Tax Credit - Partially refundable 40% of credit may be refundable (up to \$1,000)	\$2,500 per student	1) Tuition and Required fees 2) Textbooks, supplies, and equipment	1st 4 years postsecondary (undergrad)	\$60-80K (single), \$160K-180K (married)	12/31/2012
HOPE Credit	Tax Credit - Non-refundable	\$1,800 per student	1) Tuition and Required fees	1st 2 years postsecondary (undergraduate)	\$48K-58K (single), \$96K-\$116K (married)	Temporarily replaced by AOC, will return when AOC phases out at the end of 2012
Lifetime Learning Credit	Tax Credit - Non-refundable	\$2,000 per tax return	1) Tuition and Required Fees	Undergraduate and graduate	\$51K-\$61K (single), \$102K-\$122K (married)	None
Deduction for tuition and fees	Deduction ("Above the line") of qualified expenses from gross income	\$4,000 deduction	1) Tuition and Required Fees	Undergraduate and graduate	\$65K-80K (single), \$130K- \$160K (married)	12/31/2011
Business Deduction for Work Related Education Expenses	Deduction of qualified expenses from AGI	None	1) Tuition and Required Fees 2) Transportation and Travel 3) Other necessary expenses	Education required by employer or law to keep present job, salary, status or maintain or improve job skills	None	None
Exclusion of Scholarships, Grants, and Tuition Reductions	Exclusion from taxable income if scholarship, grant is used to pay qualifying education expenses	None	1) Tuition and Required Fees 2) Textbooks, supplies, and equipment	Undergraduate and graduate	None	Exclusion of National Health Service Corps and F. Edward Herbert Armed Services Health Professionals Scholarships will expire on 12/31/2011
Exclusion of Employer Provided Educational Assistance	Exclusion from taxable income	\$5,250 exclusion	1) Tuition and Required Fees 2) Textbooks, supplies, and equipment	Undergraduate and graduate	None	12/31/2012
Parental Personal Exemption for Dependent Students 19-23 Years Old	Exemption of fixed amount per dependent	\$3,700 per dependent	Not applicable	Students must be under 24 by the end of the tax year and enrolled full time at a qualifying institution	None	None

Program	Type of Benefit	Annual Limit	Qualifying Expenses	Qualifying Education Level	Income Phase Out Range	Expiration
TAX BENEFITS FOR STUDENT LOANS						
Student Loan Interest Deduction	Deduction ("Above the line") of interest paid	\$2,500	1) Tuition and required fees 2) Textbooks, supplies and equipment 3) Room and Board 4) Other necessary expenses	Undergraduate and Graduate	\$60K-\$75K (single) \$120K-\$150K (married)	Both the higher income phase-out ranges and the extended deductibility of interest beyond the first 60 months of interest payments are scheduled to expire 12/31/2012
Exclusion of Qualifying Cancelled Student Loans	Exclusion from taxable income	None	1) Tuition and required fees 2) Books, supplies, and equipment 3) Room and board 4) Other necessary expenses	Undergraduate and graduate	None	None
TAX BENEFITS FOR EDUCATION SAVINGS PLANS						
Qualified tuition programs 529 plans)	Earnings not taxed	None	1) Tuition and required fees 2) Textbooks, supplies, and equipment 3) Expenses at special needs services 4) Room and board if at least half-time student 5) Computer technology, equipment, and internet access (2010 only)	Undergraduate and graduate	None	None

Program	Type of Benefit	Annual Limit	Qualifying Expenses	Qualifying Education Level	Income Phase Out Range	Expiration
Coverdell Education Savings Account	Earnings not taxed	\$2,000 contribution per beneficiary	1) Tuition and required fees 2) Books, supplies, and equipment 3) Expenses at special needs services 4) Payments to QTP 5) Room and board if at least half time student	Undergraduate and graduate	\$95K-\$110K (single) \$190K-\$220K (married joint)	Several modifications to Coverdells are scheduled to expire on 12/31/2012. These include (1) the increase in the contribution limit; (2) the increase in the phase out range for married taxpayers; (3) special needs beneficiary rules; (4) rules governing contributions by corporations and other entities; (5) rules relating to contributions made until April 15th, and (6) the expansion of definition of qualified education expenses.
Exclusion of Interest on Education Savings Bonds	Interest not taxed	Amount of qualified education expenses	1) Payments to Coverdell ESA 2) Payments to QTP	Undergraduate and graduate	\$71,100-\$86,100 (single) \$106,650-\$136,650 (married joint)	None
Early Withdrawals from IRA	No 10% additional tax on early withdrawal	Amount of qualified education expenses	1) Tuition and required fees 2) Books, supplies, and equipment 3) Expenses for special needs services 4) Room and board if at least half-time student	Undergraduate and graduate	None	None
Uniform Transfers to Minors	Exclusion of direct transfer to educational institution from income	Unlimited	1) Amounts paid directly to educational institution for tuition	Undergraduate and graduate	None	None

Private Loans and Consumer Rights

Some individuals and families choose to supplement federal educational assistance with loans made by private lenders. Many banks and other financial institutions offer educational assistance in one form or another, and prospective students and their families are often inundated with various offers for private education loans. While some individuals and families choose to utilize private loans, it is important to know the differences between these loans and federal loans, and understand what protections are available to borrowers.

Interest Rates: Currently, all federal loans operate under fixed interest rates, meaning that the interest rate will not change over the life of the loan. In contrast, most private loans offer variable interest rates, where the interest rate is a percentage added to a base interest rate, such as a Treasury rate, that changes based on market conditions. *There is no legal limit on the interest rate charged by a private lender.* Therefore, while a lender may advertise a low rate, remember that the actual rate you pay may be much higher than advertised.

Furthermore, private loans may offer interest rate promotions or penalties that are hidden in the “fine print.” Some loans carry prepayment penalties (penalties for paying off the loan early) while others may offer low introductory rates which jump after a fixed period. *When applying for a private loan, always be aware that the interest rate advertised may not reflect the interest rate you will pay over the life of the loan.*

Repayment: Federal loans generally offer multiple repayment options, and include options for deferment (delaying repayment of loans without interest accruing) or forbearance (delay with interest accruing). These options are generally available based on academic status, professional status, or financial hardship. *Private lenders are not required to offer these options.* While some lenders may do so, it is important to understand what conditions the lender will impose in exchange for negotiating changes in the repayment plan. Be aware that this may result in you paying much higher amounts than you initially planned.

Default: With federal loans, it generally takes a 9-month delinquency (failure to pay amount due for 9-months) for a loan to be considered in default. *With private lenders, there is no such restriction.* A private loan contract may specify that default occurs when a borrower is as little as one day late on a payment. As default can have very negative consequences, it is very important to understand exactly what will trigger a default before taking out a private loan.

Know Your Rights:

While borrowers of private education loans have fewer rights and guarantees under federal law than borrowers of federal loans, it is important to note that some regulations exist covering the behavior of private lenders. These regulations are issued by the Federal Reserve under authority given in the Truth in Lending Act and the Higher Education Opportunity Act. The full regulations can be found on the Federal Reserve's website (<http://www.federalreserve.gov/bankinfo/reglisting.htm#Z>), but it is important for consumers to know the following:

- *You have a right to a loan terms disclosure document upon application for a loan, offer of a loan, and acceptance of a loan.* Lenders must provide a disclosure form at the above three stages of the lending process. Depending on the stage of the application, the disclosure form must include, among other things, the lowest and highest possible initial rate, a listing and description of loan fees, an example of total loan costs over the repayment period based on different repayment models, and federal loan alternatives. At the end of this document, you will see a link to the Federal Reserve's website where example disclosure forms are available.
- *You have a right to consider a loan offered for up to 30 days.*
- *You have a right to cancel an accepted loan for three business days after the loan is accepted.*
- *In some, but not all, cases, you have the right to sue a lender that fails to adequately meet disclosure requirements.*

Further reading

Facts About Student Aid, prepared by the Connecticut State CT Office of Financial and Academic Affairs for Higher Education, available at <http://www.ctohe.org/SFA/sfa.shtml>

Tax Benefits for Education, prepared by the Internal Revenue Service, available at <http://www.irs.gov/publications/p970/index.html>

Federal Student Aid: Learn the Basics and Manage Your Debt, prepared by the U.S. Department of Education, available at <http://studentaid.ed.gov/students/attachments/siteresources/11-12YFSL.pdf>

Sample loan disclosure forms for private loans are available from the Federal Reserve at: <http://www.federalreserve.gov/newsevents/press/bcreg/20090730a.htm>