Cost of college education continues to rise
For 2014 - 2015, the average total cost of one year:

> **At a public four-year institution (in-state)** – $18,943, an increase of 3.0% over the preceding year.

> **For private schools** – $42,419, an increase of 3.6% over the preceding year.

Over the past decade, published tuition and fees at public four-year colleges and universities rose at an average annual rate of 3.5% per year beyond inflation.

How much could a college degree cost in five or 10 years?

Two advantages can help you prepare
While saving enough money to finance the cost of college in the future can seem challenging, you have two powerful allies.

> **Time** – Start investing in your college fund now rather than later. This will enable you to capitalize on one of the most basic and powerful investment principles: compounding of earnings. Your money can earn interest, dividends and capital gains, not only on the original investment, but also on reinvested earnings. Bear in mind that the value of the investment options you choose will fluctuate so that when redeemed, they might be worth more or less than their original cost. Also remember that investing involves risk, including possible loss of principal.

> **Tax deferral** – When you save in a tax-deferred account, taxes on interest and earnings are deferred until withdrawal, so money that otherwise would have been paid toward current income tax remains in the account, where compounding can help it grow. A 10% federal early withdrawal penalty can apply to withdrawals of earnings not used for qualified education expenses.
Investing for education expenses

**Start investing now for your child’s college education**

To estimate how much you will need to fund a child’s education, ask your financial advisor to perform a college cost calculation for you. Then you can discuss the actions required to set an adequate savings plan in motion.

You can also use the College Cost Calculator on the VALIC website, VALIC.com. Remember, we can provide information about investment programs available to help you reach your targeted college funding goal.

**The power of compounding**

![Earnings and Contributions Chart]

This chart assumes $100 monthly contributions and 8% annual interest. The information in this chart is hypothetical, only an example, does not reflect the return of any specific investment and is not a guarantee of future income. Fees and charges, if applicable, are not reflected in this example and would reduce the results shown. Investing involves risk, including the possible loss of principal.

**Consider a college savings plan**

A Section 529 Savings Plan is a flexible program created specifically to help accumulate money to pay higher education costs. Many states sponsor these tax-advantaged college savings plans which offer key incentives, including federal (and possibly state) tax-free distributions when used for qualifying higher education expenses. Nonqualified withdrawals of earnings are taxed as ordinary income and may be subject to an additional 10% federal early withdrawal penalty.

**With most Section 529 plans, you can:**

- Use the money at any school in any state (rules may vary by state; consult your financial advisor)
- Contribute to the plan without regard to your income level or the beneficiary’s age
- Contribute up to $70,000 once every five years or $14,000 per year for each child without gift-tax consequences
- Withdraw earnings tax free when the money is used for qualifying education expenses
- Change beneficiary designation to another family member

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**College investment program checklist**

- Call your VALIC financial advisor
- Estimate the amount of college funding needed
- Decide on an appropriate funding option
- Establish college funding plan, including asset allocation
- Select investments
- Implement your plan
Section 529 plans are municipal securities, can lose value and are not government or FDIC insured. The value of an investment in a Section 529 plan will fluctuate and, when withdrawn, can be worth more or less than its original cost. There is no guarantee that the plan will grow to cover college expenses.

Some states offer favorable tax treatment to residents only if they invest in their state’s own Section 529 plan. You should consult with a tax advisor regarding the state tax consequences of any investment in a Section 529 plan.

Another education option: Coverdell Education Savings Account

Coverdell Education Savings Accounts (ESAs) can enable you or other family members to set aside up to $2,000 annually for each child to help pay higher education and primary and secondary education expenses. Earnings accumulate on a tax-deferred basis and withdrawals are tax- and penalty-free when used for qualifying education expenses.

Contribution amounts may be limited, depending on the adjusted gross income of the person or persons making the contributions. Your financial advisor can provide more information about ESA contribution limits.

### Comparison of Education Funding Plans

<table>
<thead>
<tr>
<th></th>
<th>Section 529 College Savings Plan</th>
<th>Coverdell Education Savings Account (formerly Education IRA)</th>
<th>Custodial Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are there tax advantages?</td>
<td>Yes. Earnings grow tax deferred.</td>
<td>Yes. Earnings grow tax deferred.</td>
<td>For children under age 18, the first $1,000 of earnings is tax free; earnings between $1,000 and $2,000 are taxed at the child’s rate; earnings in excess of $2,000 are taxed at the parents’ top marginal rate.</td>
</tr>
<tr>
<td></td>
<td>Earnings are exempt from federal taxes if distributions are used for qualified higher education expenses. Some states allow for deductions on contributions.</td>
<td>Earnings are exempt from federal taxes if distributions are used for qualified education expenses.</td>
<td></td>
</tr>
<tr>
<td>Is there a penalty for a nonqualified withdrawal?</td>
<td>Yes, 10% on earnings</td>
<td>Yes, 10% on earnings</td>
<td>No</td>
</tr>
<tr>
<td>Is there a maximum contribution per beneficiary?</td>
<td>Yes, the amount reasonably expected to cover secondary education expenses</td>
<td>$2,000 per year</td>
<td>No</td>
</tr>
<tr>
<td>Can the beneficiary be changed?</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Are there limitations on income or age?</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Where can withdrawals be used?</td>
<td>Qualified higher education expenses</td>
<td>Qualified education expenses</td>
<td>Any purpose as allowed by state law</td>
</tr>
<tr>
<td>Who owns for financial aid purposes?</td>
<td>Donor</td>
<td>Student</td>
<td>Student</td>
</tr>
</tbody>
</table>
Take steps today to reach your college funding goal

VALIC Financial Advisors, Inc. can help you realize your dream of an excellent college education for your children or grandchildren.

With access to a broad range of investments from nationally recognized investment managers, your financial advisor has the flexibility to help you design a unique funding program to suit your particular needs.

Though your child’s or grandchild’s college years might still be in the future, now’s the time to begin the planning and investing. And VALIC Financial Advisors, Inc. can help you.