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Speaker 1

Welcome. My name is Andrew Baron, and this is Well... It Depends! The podcast where I present the pros and cons of financial decisions so that you, the audience, feel better informed when you are confronted with these decisions in your own life. In this episode, I ask the question, how do I save for college?

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Speaker 1

But before we begin a short disclaimer. This is being recorded on October 20th, 2022. The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax or legal advice. Any strategies discussed may not be suitable for listeners specifically, and so we strongly encourage consulting with your advisor before implementing any strategies to ensure they meet your individual objectives.

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Speaker 1

Getting into it, how do I save for college? Well... It Depends! College is a major milestone in many Americans lives, but with rising costs, you might be wondering how to pay for your children's or your grandchildren's college. First and foremost, where do you want them to go? You might tell yourself that you're open to whatever choices they want, but when I work with clients, I question that a little bit.

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Speaker 1

Your input, your values and how you support them will ultimately affect what they do. They may not directly follow the path you set up for them, but your overall influence as a parent or grandparent is significant. So again, where do you want them to attend? An Ivy League school? Your alma mater? An out of state school that's close but not too close?

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Speaker 1

Or maybe the local community college? Remember that the listed college tuition price is often more of a suggestion than a hard and fast rule. This is especially true for universities that have extreme endowments that allow them to offset tuition costs for applicants that they want as students. For example, Harvard had over $53 billion as of 2021. Princeton, is that about $37 billion.

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Speaker 1

Even where I graduated at the University of Rochester, they have an endowment of $3.6 billion. And when you're dividing hundreds of millions, if not billions of dollars over a few thousand students, it's easy to see how this could reduce those tuition numbers. Depending on your income, your assets and your overall ability to contribute, you may be asked for different numbers.

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Speaker 1

Using Princeton as an example again, they recently came out and said that families making $100,000 and under will contribute nothing for college, and even families earning up to $300,000 will receive financial support. This means that academically gifted students should still apply to these schools, even if they come from a lower means, because the cost isn't actually a deterrent.

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Speaker 1

Okay, so back to assuming you will have to contribute something for college, how should you go about that? And of course, you have a few options. 529 plans get the most spotlight, and for good reason, as they are fully intended to fund college. You can accelerate five years of gifts into a 529 plan, which for 2022 would be $80,000 or $160,000 for a couple.

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Speaker 1

However, if you do max fund these accounts, you're prevented from making additional contributions for five years. Depending on your state, 529 plans can be triple tax efficient with a possible state tax reduction, the account grows tax free and then the account can be distributed tax free as long as it's for qualified education expenses. Some people can get hung up on the qualified expenses portion, such as, what if your child doesn't go to college or doesn't use all of the money in the 529 account?

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Speaker 1

You are able to change beneficiaries of the 529 accounts, provided that the new beneficiary is another member of the family. Even if this isn't an option, the tax free growth, depending on when you set up the account, can make up for some of the penalties you may have to pay. Roth IRAs can be another good place to save for college.

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Speaker 1

This is because Roth IRAs allow you to take out your contributions tax free and penalty free at any time. I'll say that again. You can open up a Roth IRA today, contribute $5,000 and tomorrow change your mind and withdraw $5,000 and there's no taxes and there's no penalties. Roth IRAs are intended for retirement, as they are in IRA, but being able to withdraw contributions can be extremely helpful.

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Speaker 1

This benefit accumulates over time, so if you contribute $5,000 a year for ten years, you can withdraw your contributions of $50,000. Any growth in the account is subject to penalties, so it's very important to keep track of your contributions. Over the years, because Roth accounts are considered retirement accounts, they are omitted from the FAFSA form and therefore, colleges do not expect you to use these accounts to fund college, which may change the financial aid being provided to the student.

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Speaker 1

Even after saving, you may still need to contribute more, such as from loans or current cash flow. Speaking of loans, I did want to mention that the Biden Administration has officially launched their applications for the student loan forgiveness that I mentioned in the special edition podcast. If you have student loans, you're encouraged to visit studentaid.gov to begin that process.

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Speaker 1

To recap, your preferences will shape where your student will go for school, even if it's indirectly. It's okay for things to change. All financial plans are living plans, which is why it can be valuable to have an advisor guiding you in the event things get complicated. Depending on your income and your assets, you'll be asked to contribute differently for your students’ education.

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Speaker 1

Even high income earners may receive financial support from universities. 529 plans can be very efficient places to save for higher education. It's important to review your state's rules before choosing a particular plan, as some may be more beneficial to your situation. Roth IRAs can also be helpful in funding college, but they're not intended for that purpose.

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Speaker 1

You should ultimately remember that these are for retirement. So to answer the question, how do I save for college? Well... It Depends!

Speaker 1 – Andrew Baron, CFP®, EA