AUGUST 2021 WEBINAR

Education Costs and How to Prepare for it

At FinDec, education is one of our core values. Our firm was created with deep principles rooted in the value of education and that no one can take that away from another person. Education is the most powerful tool — whether it be in business or in life. However, it can be expensive. So, how do you prepare financially for your child or children to go to school? These are four different ways our CIO Tolen Teigen shared in our August webinar that you can prepare for the cost of education.

529 PLANS

The 529 plan is a savings account that allows people to set money aside on a tax-favored basis towards education.

Benefits:

- These plans are not just for post-secondary tuition but can also be for K-12 private school tuition.
- Additionally, anybody can contribute to the account, such as grandparents.
- The account is for any school of the beneficiary's choice regardless of the type of school or location.
- You can also use 529 Plans to pay back student loans. You can withdraw a max of $10,000 for this purpose.
- The account is transferable to other beneficiaries. You may own it, but it's still the beneficiary's asset. For example, if one of your children decides not to go to school, you can put the account in another child's name.

Drawbacks:

- Be aware that there are caps on earnings, and the account should not be used for expenses. If so, you can be penalized for it.
- 529 contributions are never tax deductible at the federal. It varies on the state level, so check with your state.
- Along those lines, r vary in each state, so keep that in mind if you plan on moving to a different state.
- If 529s are not used, any earnings above your contributions will be subject to income tax and a 10% penalty.

During the webinar, Tolen suggested setting aside up to half of what you anticipate needing for a child's college tuition in a 529 (but not relying solely on that vehicle).

SAVE EARLY AND OFTEN

It is a good idea to start saving as soon as possible with however much you can afford. As long as you start saving, it will be easier to figure out how much you are willing to commit to saving. Here is an estimate of the Annual Cost of College from 2020 to help give you a better idea of how much you'll need to save:

Annual Cost of College

Public Institutions	Cost of Tuition	Additional Expenses*	Cost of Attendance
4-Year In-State	$9,580	$16,284	$25,864
4-Year Out-of-State	$27,437	$16,284	$43,721
2-Year In-State	$3,372	$12,665	$16,037

Private Institutions	Cost of Tuition	Additional Expenses	Cost of Attendance
4-Year Nonprofit	$37,200	$16,749	$53,949
4-Year For-profit	$13,475	$21,073	$34,548
2-Year Nonprofit	$17,294	$17,262	$34,556
2-Year For-profit	$15,974	$13,984	$29,958

source: educationdata.org

ROTH IRAS

The Roth IRA is one of the most popular retirement savings accounts. One of the top benefits is that you have already paid tax on the amount of money you have contributed. In addition, though, you can also use this account to save for tuition on behalf of a child.

Benefits:

- Because contributions are made post-tax, you can withdraw at any point down the road with no penalty and no tax.
- Your contributions come out first and earnings last when you withdraw any money.
- You can create donations for your children that are for both education and retirement.

If you are considering using a Roth IRA as a way to help pay for college, think about your end goal and the total amount of money you are willing to save. It is still primarily a retirement savings vehicle so you'll want to run the numbers and consider how much makes sense to pull from a Roth account. Speaking to a financial advisor on this strategy can help.

CASH VALUE LIFE INSURANCE

Cash value life insurance utilizes the idea that life insurance is a tax-free vehicle, which determines the amount of money you can receive through your life insurance. The money you receive from the cash value of a universal or whole life life insurance policy can be used for educational purposes. Depending on the plan, it can also be used to help pay for long-term care down the road. double as access to long-term care dollars down the road.

STUDENT LOANS

Student loans are one of the most common but controversial ways that students pay for an education. There are several kinds of loans you can receive, and the amount you are allocated depends on several factors, such as family income and the type of school you are attending.

In terms of federal loans, there are two types of loans: subsidized, which are loans that don't accrue interest until you graduate, and unsubsidized loans, where interest starts accruing during school. The following is an average of what students receive in federal loans:

	Dependent undergraduate students	Independent undergraduate students
First year	$5,500 overall; $5,500 subsidized	$9,500 overall; $5,500 subsidized
Second year	$6,500 overall; $4,500 subsidized	$10,500 overall; $4,500 subsidized
Third year and us	$7,500 overall; $5,500 subsidized	$12,500 overall; $5,500 subsidized
Total limit	$31,000 overall; $23,000 subsidized	$57,000 overall; $23,000 subsidized

Interest Rate for Direct Loans

First Disbursed on or after July 1, 2021 and before July 1, 2022

Loan Type	Borrower Type	Fixed Interest Rate
Direct Subsidized Loans and Direct Unsubsidized Loans	Undergraduate	3.7%
Direct Unsubsidized Loans	Graduate or Professional	5.28%
Direct PLUS Loans	Parents and Graduate or Professional Students	6.28%

Students (or parents) who can't afford school after federal loans max out may also take on private student loans. The interest rates on these vary. One of the conversations that may be worthwhile to have with a soon-to-be student considering taking on debt for school is whether or not the anticipated career path provides the income to pay off the debt. As Tolen noted in the webinar, some doctors may have hundreds of thousands of dollars in medical school debt, but are earning enough to comfortably pay that off during their career and as they grow. As with any financial decision, it helps to weigh your pros and cons and make a smart, calculated decision that's best for your situation and goals.

Debt forgiveness

In some cases, getting federal loans is beneficial, and depending on your career, you can receive student loan forgiveness (this is typically for people working for a period of time in the public sector).. Debts can also be forgiven if the borrower has passed away, and there are flexible payback options, pausing payments, and other leniencies around loans. Therefore, before you apply for any loan, it is essential to do your research.

ALTERNATIVES TO A FOUR-YEAR INSTITUTION

One final worthwhile note: As the U.S. faces historic labor shortages, some students may consider alternative education routes to avoid taking out a loan. There is a need for well-trained trade professionals across the U.S. and community colleges and trade schools nationwide offer crucial training. . Trade school provides an excellent, specific education for a fraction of the cost of a four-year degree in most cases, and it teaches other skills to produce jobs such as electricians, plumbers, and welders.

Others find that joining one of the military branches is a useful way to both serve their country and help get their school paid for. GI Bill benefits for those leaving the service offer the ability to gain an education and have the country pay for it. For students attending public colleges and universities, the GI Bill covers all tuition and fees at the in-state rate.

These are only a small list of ways that you can prepare for an education. In any case, be sure to stay up to date on schools' tuition costs, as prices vary depending on school and location. Don't hesitate to reach out to a financial professional at FinDec who can help guide you in the right direction.

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