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PLAN FOR A LIFE WELL LIVED

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Strategies to Help You Pay for College

By Leo Chubinishvili, CFP®

Advancing one's education often comes with a high price tag. Figuring out how to pay for college can be daunting.

Today, private schools can cost as much as $75,000 per year, and many state universities (even those in the state you live) can cost more than $100,000 for four years.

These costs seem to separate the "haves" from the "have nots." Yet, as a parent or grandparent, you can do a great deal to help level the playing field.

In an ideal world, you should begin planning how to pay for college when your child is born. This preparation allows your funds to grow over the next 18 years.

Of course, this is not always possible. So, what are your options? Here are a few strategies to help you pay for college.

Paying for College with Savings

529 Plans
529 plans are state-sponsored plans that allow for tax-deferred growth with very high contribution limits and no income phase-outs. If the funds are used for qualified expenses, such as tuition, room and board, textbooks, and computers, withdrawals are tax-exempt.

However, should the funds be withdrawn for non-qualified expenses, you must pay ordinary income tax on the earnings and a 10% penalty. There are no federal taxes or penalties applied to the original contribution. There can, however, be state tax implications.

Contributions to 529 plans are considered gifts. In 2021, the annual gift tax exclusion is $15,000 per person, per beneficiary. If you intend to contribute more than that amount, we recommend speaking to your tax advisor.

Almost every state offers its own 529 plan, and you don't have to live in the state where you purchase the plan. Some state plans also provide a tax deduction if you are a resident of that state. To find the best 529 plan to help you pay for college, consult with a qualified financial planner.

Investments in Non-Retirement Accounts
You can use after-tax monies that have been saved in a non-retirement investment account to pay for college. This strategy might be more advantageous than a 529 plan if you want ongoing flexibility in using the savings. In other words, you can use this savings for anything, not just education expenses. The downside is that if you choose to use it to pay for college, you don't receive the same tax advantage that you would with a 529 plan.

401(k) Plans
Another way to pay for college is by

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taking a loan from your 401(k) plan. There is a limit on the amount you can withdraw, usually the lesser of $50,000 or 50 percent of the 401(k) account's total value. This may be more advantageous than a private bank loan because you pay the interest rate back to yourself. Typically, these loans are due back within five years, and if repaid on time, you will not pay any taxes.

There are a few downsides to be aware of as well. Since there is a limit on how much money you can withdraw, it probably won't cover all your college expenses. It can also negatively impact your retirement date since you are drawing down your retirement savings. Lastly, if you don't repay the loan timely, the amount not repaid will be taxed as ordinary income, plus a 10% penalty if you're under 59 ½ years old.

Paying for college with monies from a retirement plan is an option, but not always the best one. Remember, you can always borrow money for education planning, but you can't borrow money for retirement.

Other Ways to Pay for College

Should saving for college not be possible, all is not lost. There are other avenues for students to pursue. Here are some additional ways to pay for college.

Scholarships

Most scholarships are based on academics, sports, or other extracurricular activities. Students should begin researching and applying for scholarships during their sophomore year of high school. Understanding what the eligibility requirements are ahead of time allows you and your student to get proactive in your college planning. For example, your student may want to take additional AP classes or volunteer more so they qualify for a specific scholarship by their senior year.

Financial Aid

We usually recommend every child apply for financial aid due to it being widely available. There are eligibility requirements, of course, such as the student's merit and financial need. Financial aid can include various federal grants, scholarships, federal student loans, and work-study opportunities. To determine if your student is eligible, complete the FAFSA (Free Application for Federal Student Aid) application.

Private Student and Parent Loans

Private loans enable you to borrow money from a lender (e.g., a bank or credit union) and pay it back later with interest. Private loans are different from grants and scholarships, which do not need to be repaid. These loans typically come with fixed or variable interest rates that can be high, and students may be required to have a co-signer. Private loans should be your last resort, as they carry the highest repayment costs.

With so many loan options available, it can be overwhelming. Savingforcollege.com publishes many helpful articles on loan options and other college saving strategies.

How to Reduce the Cost of College

There is another strategy worth mentioning here. Attending community college for one or two years and then transferring to a four-year school may accomplish a few goals.

First, community college typically runs about $3,000 per year, offering a tremendous cost savings. Second, not every 18-year-old knows what they want to be when they grow up, and community college offers them an opportunity to mature and explore different career paths, before committing to a major. Lastly, it can improve a student's chances of admission to a school they may not have qualified for out of high school.

In Conclusion

No matter which strategy — or combination of strategies — you pursue, there are clearly many ways to pay for a college education. The options can be overwhelming, and your decision should complement your financial plan, which includes retirement planning, among other things. Speak with a qualified financial planner to help you decide which options are most suitable for you and your family.

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Avoid These Mistakes as You Approach Retirement

By Howard Milove, CPA, PFS

It's the million-dollar question — and it may take more than that — ***but are you prepared to retire?***

Your lifestyle costs, annual income, investment returns, savings, and even how much insurance you have are some of the critical areas that need to be addressed throughout your life, as they impact your ability to be financially independent.

Here are five of the biggest hurdles that can trip you up along the path to a secure retirement:

No financial plan. Retirement can last 20 years or more. Therefore, you should design a plan that spells out your financial needs and how you intend to get there. Not having such a plan is like trying to find a faraway destination without a map (or, in today's world, a GPS). When considering how much money you need, don't forget to consider inflation and the increasing cost of health care as you age. Then determine how much your investments will kick off annually. Here are a few questions that a financial planner can help you answer:

- *What income will be available to you (i.e., pension, retirement accounts, and Social Security)?*
- *When should you take Social Security (and what will be the difference if you take it at 70 vs. 66 or 62)?*
- *Should you consider working part-time during retirement?*
- *Do you need to downsize or relocate to lower your living expenses?*
- *How much can you afford to leave for your loved ones?*

No investment strategy. As you near retirement, it is more important than ever to have a well-diversified portfolio. Additionally, while a riskier approach may have made sense when you were in your 40s and 50s, now may be the time to adjust your portfolio to a more conservative approach (while at the same time not being so conservative that you fail to consider inflation). An investment portfolio invested in different asset classes, consisting of both equity and fixed-income investments, will reduce the level of volatility and risk. Similarly, it is crucial at this stage not to react emotionally to any market swings. Work with an investment advisor or financial planner to determine an asset allocation that you are comfortable with and will help you meet your goals.

No estate plan. We highly recommend having an estate plan in place to make sure your wishes are carried out after your death (or should you become incapacitated). The three estate planning documents you should have include:

- **A Will**, spelling out who will receive your assets and who will manage the distribution of your estate;
- **A Power of Attorney**, identifying who will act on your behalf on financial matters should you become incapacitated; and
- **An Advance Medical Directive (or Living Will)**, detailing your final wishes and identifying who may speak to your doctors in life-ending situations if you cannot communicate.

Review these estate planning documents every few years to ensure they remain up-to-date.

No long-term care plan. Medical insurance will not pay for custodial care, whether at home or in an assisted living facility or nursing home. Having to pay for long-term care can cause you to burn through your assets very quickly. While not everyone will need long-term care, the odds are not in your favor. Studies show that three in four people over the age of 65 need custodial care at some point in their life. Long-term care insurance is expensive and is best purchased when you're young and healthy. A financial planner can help you determine how long-term care insurance might fit into your budget.

No "what comes next" plan. You may be waiting eagerly for the day you stop working, but do you have a good idea about what comes next? Retirement is not like going on a two-week vacation. Most people quickly get bored playing golf or visiting the grandchildren every day. *Do you plan on working part-time? Volunteering? Devoting more time to a passion or hobby?* Take time to consider how you wish to fill your days so that you feel fulfilled. Ensure your financial plan, retirement plan, and investment portfolio align with your goals.

Addressing each of these areas will increase the likelihood of a successful retirement. We suggest sitting down with a trusted financial planner to ensure that you have considered every option and "what if" scenario.

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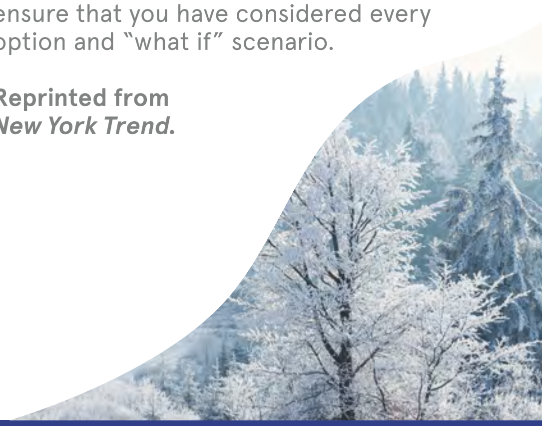

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Moving Toward Digital

We live in a world driven by digital communication. To ensure we communicate timely with you, we send out articles and Alerts electronically more frequently than ever before. Our cornerstone communication piece has become our monthly electronic newsletter, which now boasts more than 500 subscribers.

To avoid content overlap, we have decided to retire our printed quarterly newsletter at the end of this year. This move also supports our desire to be more environmentally responsible, saving a significant amount of paper and envelopes each quarter.

Here's what you can expect when you sign up for our electronic communications:

- Monthly e-newsletter containing timely articles written by our advisors
- Video of the Month on the third Tuesday of every month
- Bi-monthly retirement focused content
- Holiday and Happy Birthday emails

Here are some recent articles and videos you may have missed:

- Supercharge Your Resolutions by Making Them SMART
- Second Stimulus Package Update
- Retirement Planning by the Numbers
- RMD Rules Have Changed
- Key Tax Numbers for 2021
- Record GDP Growth Rate Announced
- The Presidential Election and Your Portfolio
- Year-End Deadline Reminders and Actions
- Life Insurance Myths Debunked
- Understanding the Cycle of Investing
- Why You Shouldn't Enter Retirement Without a Budget
- Avoid Making These Retirement Mistakes
- Three Estate Challenges for Blended Families

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Congratulations to Howard Hook for earning the Chartered Advisor in Philanthropy® (CAP®) designation. The CAP® designation requires three graduate-level courses that provide a comprehensive education on the strategies of philanthropic planning. It supports Howard's passion for charitable planning and the work he does with clients every day. Howard is also a Certified Financial Planner (CFP®) and a Certified Public Accountant (CPA).

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