RETIREMENT INVESTMENT ADVISORS, INC.

2925 United Founders Blvd.
Oklahoma City, OK 73112
(405) 842-3443
(800) 725-4530

9300 John Hickman Pkwy.
Suite 504
Frisco, TX 75035
(972) 377-2850

www.TheRetirementPath.com

left to right: Carol Ringrose Alexander, CFP®, Chad A. Rudy, CFP®, Brenda C. Bolander, CFP®, Andrew K. Flinton, CFP®, and Randy L. Thurman, CFP®

Financial Briefs

AUGUST 2022

How Much Will College Really Cost?

The average cost of a traditional college education, including room, board, and fees, can add up to approximately $22,000 per year — and that's just in today's dollars (Source: College Board, 2021). While your first thought may be to protect your child from a lifetime of student loan payments, it's equally important to consider how covering all or a portion of these costs could affect your own future. Unlike your children, you no longer have 40-plus years ahead of you to plan.

Let's assume you're 50 when your child begins attending college and you pay for just half of the cost, for a total of $11,000 per year for four years. That's $44,000 not going toward your IRA, 401(k), or other investments. Assuming you retire at age 65 and earn an 8% annual average return between now and your planned retirement time, you just forfeited more than $120,000 in potential retirement funds.

You might also be contemplating taking out a loan to cover college costs. Once those loans are due, you're opting to juggle both retirement investing and debt at a time when you should be saving more toward retirement than ever. Keep in mind there are far fewer options for parents when it comes to loan repayment and/or forgiveness than there are for students. And even if you're willing to sacrifice an extra few years of retirement to finance your children's college education, you may feel differently as you grow older — especially if factors such as unforeseen health issues or fluctuations in the economy impact your plans to work longer.

On the other hand, your child has his/her entire life to pay off student loan debt, even if it means putting in extra hours or sacrificing discretionary spending for a while. Unlike you, he/she has decades of working years ahead to manage college debt.

The good news is, you can still help your college-bound children in

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Myths about College Planning

The college planning, admission, and financial aid process can seem opaque to both students and their parents. And given all the concerns about rising tuition and confusion about how aid is allotted, it's not surprising that some myths have arisen about the best way to plan for college costs.

The truth is that much conventional wisdom about college planning is more fiction than fact. Below, we bust some of the biggest college planning myths so you'll be better prepared to give your children the start in life they deserve.

Myth #1: We earn too much to qualify for financial aid. Some families with high incomes and a lot of assets may indeed not qualify for need-based financial aid. But chances are, you aren't one of them. The truth is, financial aid formulas are complicated, and it's hard to predict how much or what type of aid you might get if you don't apply. Filling out the Free Application for Federal Student Aid (FAFSA) as well as any institutional aid forms is almost always worth it, just to see what happens.

Myth #2: I'll never be able to afford to send my child to a private school. There's no doubt that private colleges and universities are expensive, and there's a lot of debate about whether they're worth the cost. But keep in mind that while the sticker price may be high, private schools typically have more money to spend on financial aid than their public counterparts. And if a student is exceptionally talented, a private school may offer generous financial aid to encourage him/her

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How Much Will College?

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ways that significantly reduce their burden without impacting your retirement plans:

Provide Food and Shelter

The average cost of room and board ranged from approximately $11,950 to $13,260 annually for the 2021–2022 school year, accounting for as much as half of the annual costs of college (Source: College Board, 2021). When you consider that the expense of a dorm room and food can essentially double the costs of college, the simple act of continuing to house and pay for your children's necessities during their college years can save them from accumulating tens of thousands of dollars in debt. While staying home may not exactly hold the same thrills as the traditional college experience, there are numerous benefits that offset forgoing that experience. In fact, when you consider the money saved, your children may not have to be one of the many young adults who move back home after college graduation.

Additionally, because your child is taking advantage of your free room and board by attending a local college, you'll inadvertently help them dodge the costs of pricier out-of-state or private colleges that can double the cost of tuition (and accumulated debt).

Cut Back on Unnecessary Spending

Vacations, new car payments, and even the daily latte you enjoy add up quickly. You may be surprised at how much you can contribute by skimping on spending for a few years until your child graduates. To take advantage of extra savings, print out prior credit card and bank statements and scrutinize each expense line by line, asking yourself if it's an essential or simply a want. Forgoing these costs can provide you with hundreds of extra dollars each month to help your son or daughter with tuition. Tip: Make sure everyone is making sacrifices, not just mom or dad. Call a family meeting and discuss the financial advantages of making sacrifices.

Plan Ahead

If your children are still young, investing in a 529 plan, Roth IRA, or alternative investment each month while continuing to maximize your retirement contributions can make a huge difference in college costs down the road. Even encouraging family members and loved ones to give college savings money as gifts can quickly add up.

Remember, with your help and encouragement, your children can combine income from savings, part-time jobs, grants, scholarships, and loans to finance their college education in a manageable way once loan payments become due. Furthermore, because they're actively involved in the financial aspects of their educations, they're much more likely to stay on track and value the many gifts college education affords. While they may begin their adult lives with some debt, they have the energy and time you don't to pay it off. And because you were savvy when it came to your retirement, they won't be faced with the obligation to financially help you in your old age.

Please call to discuss in detail how you can maximize both retirement and college savings.

Financial Management for College Students

You're off to college. It's an exciting time filled with firsts — the first time living away from home, the first time you're on your own for meals and laundry, and the first time you have to manage your own money. It's important to get off on the right foot with managing your money, because the financial decisions you make now will impact you later. Following are some tips:

Develop a Budget — First make a list of your monthly income sources, including wages, savings, and any allowance from your parents or others. Next, you will want to make a complete list of all of your expenses, including school supplies, laundry, meals outside of your food plan, and personal care items. On a monthly basis, you should track your expenses and add new expenses as you discover them. Hopefully, you will have more income than expenses, but if not, you need to start deciding what stays and what goes.

Identify Wants Versus Needs — Part of becoming financially responsible is learning the difference between wants and needs. You will need to determine the amount of money that is absolutely essential to pay your expenses each month. After a few months, it will become easier to distinguish wants from needs. As you track expenses on your budget, you will be able to ensure the essentials are covered and determine how much you have left over.

Set Up Checking and Savings Accounts — Find a bank or credit union on campus to establish a checking and savings account. You will want to make sure they have convenient ATMs on or near campus so you can avoid any out-of-network ATM charges. Most financial institutions offer free checking and savings accounts to students, but you should make sure you understand what fees may be associated with your accounts and any policies that will impact your accounts.

Use Credit Cards Wisely — While it can be a double-edged sword, you need to use credit to establish a good credit rating. This will be important when applying for a job, securing an apartment, and buying a car. You should open a credit card and use it to pay for expenses, being sure to pay off the balance each month. By doing this, you are showing you are financially responsible and you are establishing a good credit history.

Myths about College

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to attend. If your child is considering private schools, research the net price, not the sticker price, to get a sense of what it might really cost to attend. You should be able to find calculators to help make these estimates on a school's website.

Myth #3: It's better to borrow money from my retirement accounts for tuition than to have my child take out student loans. Borrowing money from your 401(k) or other retirement accounts to pay for college is not always a good idea. Unless you've oversaved for retirement (and few people have), you're going to need that money when you stop working. Pausing your contributions or drawing down your balance will set you back significantly. While you don't want to overburden your kids with debt, a small amount in student loans may give them skin in the game, so to speak — and modest student loan debt at a low interest rate won't jeopardize your child's future. By keeping your retirement savings safe, you'll also be less likely to have to turn to your children in the future for financial help.

Myth #4: I'm not sure my child will attend a four-year college, so I shouldn't bother to set up a 529 plan. The funds you put in a 529 plan can be used for qualified expenses at a wide variety of schools, including community colleges and accredited trade and vocational schools. You can even use the money at some foreign schools. Plus, if your child ends up not needing the money, you can name a new beneficiary for the funds, like another child, your brother or sister, a niece or nephew — even yourself. In the worst-case scenario, you simply use the money for noncollege expenses, though that comes with a penalty. But whatever you do, don't let the chance that your child won't attend school stop you from saving.

Myth #5: My child is a genius or a great athlete. I'm sure they'll get a scholarship, so I don't need to save. Scholarships are a great way to help for college, and a significant amount in gift aid for education is awarded to students every year. But unless your child is a true phenom, you can't be sure he'll get a piece of that pie — or how much, if he does. Plus, you really should start saving for college when your children are very young, well before you have any idea of whether they're math geniuses or football stars.

Myth #6: We should put all the money we save for college in a 529 plan. Not necessarily. A 529 plan has many advantages, like tax-free withdrawals for educational expenses. But you may want to diversify your savings. If your son or daughter gets a scholarship, drops out, or doesn't attend college, you can use those other savings however you want, without paying a penalty (unlike a 529 plan).

Myth #7: I should put college savings in my children's names. It certainly seems like it might be a good idea to keep your child's college savings in his/her own name. But that's not always a good idea. For one, college financial aid formulas generally see 20% of a student's total assets as being available to pay for education every year, compared to just 5.6% of a parent's assets. More assets in their name could translate into less financial aid for your child. Plus, once your child turns 18, that money is his/her to do with as he/she wishes (unless it's money held in a trust with restrictions on its use). Not all young adults will have the wisdom to use that money wisely.

4 Reasons for Your Child to Work Part-Time

Don't feel guilty about your children working while attending college or feel that a part-time job will only interfere with their college experience. Working as little as a few hours a week can be remarkably beneficial.

It Boosts Accountability— Encouraging your children to work part-time as soon as possible and setting a portion of their earnings away for college can give them a much better appreciation for their college education. Nonworking students can struggle to understand just how expensive their tuition and living expenses are and the sacrifices involved in paying those costs.

A part-time job provides them with a stronger sense of the work and sacrifice involved in paying their tuition and other expenses.

It Can Cut Down on Costs — Even the smallest contributions can quickly accumulate, decreasing the balance of their tuition bill, paying for the new laptop they need, or cutting down on the monthly student loan payments they'll owe after graduation. Whether they contribute $50 or $500 a month, it's either money they won't owe after graduation or money saved that you can put toward your retirement or investments.

It Teaches Life Skills — Whether they're answering phones or delivering pizzas, part-time jobs provide teenagers and young adults with a different set of skills than what they'll derive in class. Because they're interacting more with adults in a real-world setting, they'll develop the vital communication and problem-solving skills that they'll need in their post-college career much sooner, which could lead to greater opportunities earlier on. Moreover, regardless of whether they're in high school or college, working even a few hours a week while attending school allows them to master work-life balance, so they're better equipped for the realities of adulthood.

It Encourages Networking — There's a well-known saying that success is closely linked with who you know. Sure, they'll make friends in the dorm, but a part-time job encourages them to connect with peers on a different level that could lead to valuable opportunities in the future. A job allows them to further develop their individual talents and strengths.

News and Announcements

From the Thurman Household

My son, Levi, attended a "Grapplers Retreat" where he got to roll with World Champions in Jiu-Jitsu. He had a great time and learned a lot. He just earned his purple belt, in 3 years. It is quite an accomplishment. I'm proud of his effort. He is now allowed to do certain holds previously not allowed for lesser belts due to the risk. He's excited because he really likes these holds and is very good at it. Competitions are going to be even more interesting.

My wife, Pati, completed the Light at the End of the Tunnel marathon in Seattle. 26.2 miles of trail running. She is now training for a 105 mile bike ride. Yeah, it's crazy.

Outside of work, I've been doing book signings and working on my next two books, a rewrite of *The Richest Man in Babylon - The easy to read edition* and *The Five Steps to Finding a Financial Advisor You Can Trust.* I'm hoping to get both out before the end of year. I've pledged all profits of *The Richest Man in Babylon* to the Oklahoma Society of CPAs financial literacy. Outside of that, I am playing lots of pickleball.

Life is good. Make it a great month,

Randy Thurman, CFP®, CPA/PFS

From the Flinton Household

"It takes courage to grow up and become who you really are."

~ E.E. Cummings

A few weeks ago, I was driving a golf cart with my daughter Samantha down a road I have traveled thousands of times. We were heading towards the spillway at Northwood Lake in Piedmont. As we came towards the water, I had sense of Deja-vu. I was transported back to 27 years ago, when I first drove down that road. 27 years ago, I was on a 4-wheeler rather than a golf cart, and I was driving to see a middle-school girl, rather than driving with my daughter, who is a middle-school girl. That day I was chased off by a ferocious German Shepherd, and didn't know if I would ever make that journey again.

However, I did make it back, thousands of times. To travel down the road to my first girlfriend's house, who subsequently became my wife, with my first-born daughter who is close to the age I was when I first traveled that road, was an interesting and special moment for sure. Courtney and I have a love for sunsets that started at Northwood in Piedmont decades ago. As I was transported back to my first memories with the love of my life, I also recognize that my own children's lives and journey will invariably be unique to them as well. My girls are getting bigger, older, wiser, and prettier. I hope and pray I have the strength and wisdom to let them have the appropriate length of proverbial rope to make decisions and walk a path that they too might look back on with fondness and love.

Enjoy a wonderful month,

Andrew Flinton, CFP®

From the Rudy Household

About 15 years ago, I created email accounts for all three girls. I primarily set them up to secure their names, but also Kayla, age 5 at the time, needed one to create an account for an online game that was linked to a stuffed animal. (Just in case you were wondering, the site was Webkinz and I am pretty sure all three of the girls needed to log back in to "feed" their pets.) The girls later thanked me for being proactive in creating emails addresses with their proper names instead of their cute childhood nicknames.

While creating their email accounts, I also wanted to create a family email address to use if we ever needed shared access for any services. The email service I was using did not permit the word "family" in the name, so I quickly came up with "*RudyFam5*." Over the years, this account has been very useful as it has been used for shared calendars, shared file access and shared TV accounts.

I completely underestimated how the *RudyFam5* name would extend beyond the digital world. When all five us are together, we refer to ourselves as *RudyFam5*. Perhaps we're having a *RudyFam5* dinner outing. Or, it could be a *RudyFam5* vacation. We were surprised and delighted with how this spur of the moment name selection has become such an important part of our family's vocabulary.

Chad A. Rudy, CFP®