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Financial Briefs

APRIL 2024

Is It Time to Rethink College?

College costs can seem staggering. For the 2023-24 school year, the average annual total cost was $56,000 for a four-year private university and $24,000 for a four-year public university (Source: *Trends in College Pricing*, 2023). It's no wonder that students and parents alike question whether college is really necessary.

To help answer that, consider the median earnings by level of education for 2021 (most recent year available):

Professional degree	$121,600
Doctoral degree	102,700
Master's degree	87,300
Bachelor's degree	73,300
Associate degree	52,100
Some college, no degree	50,900
High school graduate	44,300
Not a high school graduate	35,800

(Source: *Education Pays*, 2023)

In terms of paying back college costs, the College Board estimates the typical college graduate who started college at age 18 will earn enough to compensate for tuition and fees at the average four-year public university as well as for foregone earnings during those college years by age 34 (Source: *Education Pays*, 2023).

While that doesn't sound like a bad tradeoff — breaking even by age 34 and then earn substantially more for the rest of your life — keep in mind that those figures only include the cost of tuition and fees at a public university. Room and board adds another $12,770 annually to the cost. And, if your student goes to a private university, the costs are typically double what you pay at a public university.

Those figures also don't consider how you pay for that education. If you pay for a college education primarily with student loans, it could take a lot longer than age 34 to break even.

That doesn't mean your child shouldn't go to college, but you may need to reevaluate how much you want to spend on that education. Consider these strategies to reduce the cost of a college education:

- **Look for scholarships that are not based on need.** Generous merit scholarships are often available to students with outstanding high school grades and above-average entrance exam scores. Scholarships may also be available for athletes and for those with strong music backgrounds. If your student has qualities that a college is looking for, that college may be more willing to offer scholarships to attract him/her.
- **Apply to several different colleges.** Don't make the mistake of thinking that aid packages will be the same at all universities. You may be surprised at how wide the differences can be. Even if your child is set on one school, it is generally wise to apply to several different colleges. This is especially true in these economic times when more students are applying for aid and colleges have less aid available.
- **Talk to the university.** If the

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Should You Use a Roth IRA to Pay for College?

With the cost of higher education soaring every year, parents find they have many competing demands for their savings, and it leaves some parents wondering if they should use their Roth IRA to pay for college expenses.

The Roth IRA is becoming a very popular way to save for retirement because of its tax-free growth of earnings. The additional benefit is that since contributions are made with after-tax dollars, you can withdraw the contributions at any time

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Is It Time to Rethink?

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financial aid package is not sufficient, talk to the financial aid officers at the university. By explaining extenuating circumstances or showing the college offers from other universities, you may be able to increase your financial aid package.

- **Don't overlook state public universities.** Costs of public universities, especially in your state, are typically much more affordable than private universities.
- **Decide whether it makes sense to go to an expensive private college.** First, you need to evaluate how much financial aid your student would be entitled to, since many private universities offer substantial aid packages. If you are still left funding much of the cost yourself, consider whether your child's intended career makes it a good investment. If your child intends to pursue a career with limited salary potential, you may not want to send him/her to an expensive college.
- **Consider starting at a two-year college.** Two-year colleges are often much cheaper than four-year colleges, especially when you consider that most students live at home while attending. For instance, for the 2023-24 school year, the average cost of tuition and fees at a public two-year college is $3,890 compared to $11,260 at a public four-year college and $41,540 at a private four-year college (Source: *Trends in College Pricing*, 2023). Before starting, however, your child should determine which four-year college he/she will transfer to and make sure all of the credits from the community college will transfer to the four-year college.
- **Send more than one child to the same university.** Many universities offer discounts on tuition if more than one child attends at the same time.
- **Accelerate your child's studies.** You can save a significant amount of money if your child can complete a four-year degree in three years. Another alternative is to have your child take summer courses at a local community college. High school students may be able to take courses at a community college, which will then transfer as college credits. Advanced placement courses may also count as college credit.

Please call if you'd like to discuss this topic in more detail.

Decisions Regarding College Funding

Don't let the high cost of a college education prevent you from developing an effective strategy to deal with those costs. Before you can determine how much to save for your children's college educations, there are several decisions to make:

Does each child require the same level of support? While parents typically want to treat children equally, each child's needs may differ. One child may excel in school and want to attend an expensive private college, while another child may feel more comfortable at a local public university. Thus, consider the best options for each child.

What is your savings goal? Setting a savings goal can be difficult if your child is many years from college. With college costs increasing so significantly in recent years, assuming similar increases in the future may make your savings goal seem overwhelming. To keep your savings amount reasonable, you can estimate your savings target based on today's college costs, increasing that amount every year to cover actual college cost increases. Also decide whether you are aiming for a public or private college, which have vastly different costs.

Will your child contribute toward college costs? Most children would have difficulty paying for all college costs, but you may expect your children to help fund certain costs or a certain percentage of total costs. For instance, you may make them responsible for room and board, tuition, books, or personal expenses.

Will your family qualify for financial aid? Even if your child is several years from college, it is worthwhile to evaluate whether you would be eligible for financial aid. Don't just assume you will be precluded from aid if your income is high. Also, be aware that many scholarships are awarded based on merit, not need.

Will you need loans to pay some college costs? By starting a savings program early, hopefully you won't have to borrow for college. Borrowing can put a significant strain on your finances, usually at a time when you should be concentrating on saving for retirement. However, there are a variety of loan options available, with some of the least costly available only to students. Even if you don't want to burden your child with these loans, it may make sense for your child to obtain the loan. You can then give the funds to him/her at a later date to repay the loan.

How much can you save on an annual basis for college? You don't have to select a fixed amount to contribute annually. You may decide to increase savings in the early years or contribute an increasing amount every year.

How will you save for college? There are a number of ways to save for college and to reduce your after-tax costs. Look into section 529 plans, Coverdell education savings accounts, education tax credits and deductions, saving in your child's name, and using IRA funds to pay college costs. Evaluate all options in light of your financial situation.

The important thing is to start your college savings program now. If you'd like help with this process, please call.

Should You Use?

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without having to pay penalties or taxes. This is why using a Roth IRA to pay for college expenses is attractive to many parents.

Before you start using your Roth IRA to pay for your child's education, make sure you understand the pros and cons so you make an informed financial decision.

Financial Planning First

Financial experts agree that you need to have a solid financial plan before making decisions about participation in any college savings plan, which includes:

- Making contributions to your work retirement plan to receive the full employer match.
- Saving as much as you can in retirement accounts; 10% to 20% of your income is recommended.
- Eliminating high-interest debt, such as credit cards.
- Having an emergency fund to cover 3 to 6 months of living expenses.

Retirement Planning Is a Higher Priority

Before saving for college, you will want to ensure you are on track with your retirement income goals. You can borrow money for college with a low-interest rate student loan, but you don't want to fund your retirement by accumulating debt. Research shows that most people are not confident they will meet their retirement goals, which is why financial experts agree that retirement savings should be a higher priority than college savings.

If you put college savings ahead of retirement savings, you may need to delay your retirement because you don't have enough money to retire, sell investments or other assets earlier than planned, or live with financial stress when you should be focused on enjoying your retirement.

Should You Use Your Roth IRA to Pay for College?

For some parents, using a Roth IRA to pay for college allows them to save for retirement as well as use the account to help pay for college. The Roth IRA does have some unique benefits that make it an option to pay for college if you have your finances in order.

Pros

Here are some of the benefits of using a Roth IRA as part of your college savings plan:

- Original contributions can be withdrawn from the account without having to pay any tax or penalty. The earnings in a Roth IRA only grow tax-free if the account has been opened at least five years and distributions happen after age 59½. Since the contributions are made with after-tax dollars, they can be withdrawn at any time.
- You can develop a withdrawal strategy to use the contributions to pay for college expenses while allowing the earnings to continue to grow tax-free for your retirement.
- Roth IRAs have more investment options than other types of accounts. Most 529 college savings plans have limited investment options. The Roth IRA is a type of retirement savings account that can contain various investments.

Cons

Here are a few of the cons of this strategy:

- Roth IRAs have income limitations. If you are married filing a joint tax return, you are ineligible to contribute to these accounts if you earn more than $240,000 in 2024. For single filers, the income threshold is $161,000. However, if you are eligible to contribute to a Roth IRA, the downside risk of using it to pay for college expenses is that you will have to delay your retirement if you do not have other funds for retirement.
- The contribution limits for a Roth IRA are lower than college savings accounts, such as a 529 plan. In 2024, you can contribute $7,000 per year to a Roth IRA and $8,000 if you are over 50 years of age. Another issue with using Roth IRA contributions to pay for college is that the distributions count as untaxed income, so when you complete the FAFSA form for financial aid, it could reduce your child's eligibility.

529 Plans May Be a Better Option

If saving for college is your primary goal, the benefits of a 529 plan may be a better option, including:

- Earnings grow tax free and the money is not federally taxed when you take withdrawals to pay for college expenses. Many states offer a full or partial tax deduction or credit on 529 plans. Also, you can now take tax-free withdrawals up to $10,000 for private, public, or religious elementary and secondary schools per year.
- The owner, not the student beneficiary, is in control of the account to assure the money is used for college expenses. Starting in 2024, any unused funds can be transferred to a Roth IRA for the beneficiary.
- The account is flexible, allowing you to change your investments twice per year, and you can rollover your funds into another 529 plan once per year.
- Unlike the Roth IRA, 529 plans have no income limits, age limits, or annual contribution limits. There are lifetime contribution limits, which vary by plan.
- You do not have to report contributions on your federal tax returns, and you will not receive a form 1099 until the year you make withdrawals.
- In 2024, you can gift up to $18,000 per person and qualify for the annual gift tax exclusion. For example, if you and your husband have three grandchildren, you can contribute $108,000 and qualify for the gift tax exclusion. A lump-sum of $90,000 can be made up front to cover five years without triggering a gift tax.

Please call if you'd like to discuss this in more detail.

News and Announcements

From The Bolander Household

The last week of April is known for the OKC Festival of the Arts and the Okemah Pioneer Day Celebration – and those April showers are certain to make an appearance on one or two days if not all weekend! The Festival of the Arts starts on Thursday, April 25th at Bicentennial Park to celebrate four days of the arts community, which is two days shorter than last year.

The Okemah Pioneer Day games, parade and rodeo are on Saturday, April 27th. The carnival starts on Thursday evening, and there is a street dance on Friday night. I have fond memories of the annual celebration. In elementary school, there was fierce competition between the two schools to win the parade float contest. Each child was asked to bring a roll of a certain type of toilet paper for stuffing into chicken wire that covered the flatbed trailers. One year in junior high, my sister and I invited several friends for a sleepover on Friday night. We stayed up most of the night making tie-died t-shirts that we proudly wore to the parade on Saturday. In the years after that, I didn't get to see much of the parade because I marched in it with the high school band. Rain or shine, each year was so much fun.

Have a great month.

Brenda C. Bolander, CFP®
CPA/PFS TM
Executive Vice President

From the Rudy Household

There are many great financial books out there, but *The Psychology of Money* by Morgan Housel stands out to me and is a book I go back to regularly. It goes beyond technical strategies and helps us understand the emotional side of our financial decisions.

The chapters revolve around a common theme but exist on their own and can be read independently. Some of the topics include the hidden power of luck and how it affects unexpected risk, balancing optimism and pessimism, the different skills required to get wealthy versus the skills required to stay wealthy, and the role of our emotions, biases, and relationships in our financial choices.

Each time I revisit the book, I share parts of it with my wife, Amy, including one of my favorite quotes, "Nothing is as good or as bad as it seems." Amy has decided she'd like to go ahead and read the whole book for herself. I am eager to hear her thoughts and insights. If these topics sound interesting to you, I highly recommend checking out *The Psychology of Money*. I hope you like it as much as I do.

Chad A. Rudy, CFP®, RSSA®
Executive Vice President - TX

From the Sterling Household

With the warmer weather and longer days, our thoughts have turned to summer and travel in the Sterling household. There are a lot of fun experiences on the horizon for the kids, and they are certainly excited.

Avery is very involved in a school program called DECA. The club focuses on educating and developing business skills in high school and college students. Students compete at state and international levels, as well as operating a school store and obtaining employment outside of school throughout the year. For the second year in a row, Avery has qualified to compete at the international competition, which is held this month in California. She placed at state in multiple events, and we are very excited that she will again have the experience of competing at a high level with such an amazing organization.

Additionally, Avery has a big trip this summer to Japan as part of the Wings of Rotary exchange program. She will spend two weeks visiting clubs and staying with host families. She is looking forward to learning more about their culture and experiencing their beautiful country. She practices her Japanese daily, and I love watching her grow in new and exciting ways.

Eli's adventures will likely be a little closer to home, but there is plenty of hiking and camping to be done over the next few months. He took his first camping trip of the year over spring break and is looking forward to many more. Sleeping on the ground is not for me (or his sister), but he and his dad have a blast finding new places to explore and camp.

Sylvia L. Sterling, CFP®, CDFA®
Senior Vice President