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Financial Briefs

SEPTEMBER 2025

Using Your Roth IRA to Pay for College

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

The Roth IRA is becoming a popular way to save for retirement because of its tax-free growth of earnings. The additional benefit is that because contributions are made with after-tax dollars, you can withdraw the contributions at any time without having to pay a penalty or taxes. For these reasons, using a Roth IRA to pay for college expenses can be attractive to many parents.

Before you use 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. This plan should include:

- Contributing enough 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 your child's college education, ensure you are on track with your retirement income goals. While you can borrow money for college with a low-interest rate student loan, it doesn't make sense 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, sell investments or other assets earlier than planned, or live with financial stress when you should be focused on enjoying your retirement because you don't have enough money to retire.

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 while also using 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.

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Financial Management for College Students

You're off to college. It's an exciting time filled with many 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. But all of these firsts can be a little daunting too.

It's important to get off on the right foot with managing your money, because the financial decisions you make now can impact you later. Following are some tips you should heed now to build a strong foundation for money management:

Develop a Budget

To create your budget, you can develop a spreadsheet or use an online personal financial management tool. In preparing your budget, you should 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 out-

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Using Your Roth IRA

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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, but the Roth IRA is a type of retirement savings account that can contain various investments.

Cons

Here are some 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 $236,000 in 2025. For single filers, the income threshold is $150,000. 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 may need 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 2025, 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, a 529 plan may be a better option because of the benefits, which include:

- 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. 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.
- The account is flexible, allowing you to change your investments.
- 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, ranging from $235,000 to $550,000.
- In 2025, you can gift up to $19,000 per person and qualify for the annual gift tax exclusion. You can also deposit a lump-sum of $95,000 to cover five years without triggering a gift tax.

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

Get Your Share of Merit Aid

The basic premise of financial aid is that it is need based. Families fill out the government's aid form, called the Free Application for Federal Student Aid (FAFSA) so mathematical formulas can determine a family's eligibility for federal financial aid. Colleges can use a different, though similar, methodology to make financial aid awards.

However, it is possible that the same student can obtain very different financial aid packages from colleges with similar costs. If the financial aid process is truly need based, how could that happen? Part of it results from how individual colleges define your assets for financial aid purposes. Another part of the difference results from colleges competing to attract top students. To encourage these students to attend their college, they may give merit scholarships or alter the mix of traditional need-based financial aid. Financial aid consists of grants (which do not have to be repaid), loans, and work study programs. Two financial aid packages may have the same dollar value, but the one with a higher percentage of grants will be more valuable.

What implications does this have for a child approaching college? Consider these tips:

- Encourage your child to do well on college entrance exams. Not only will this make him/her eligible for acceptance at a broader range of colleges, it may increase your financial aid package.
- Don't enter the process determined to attend one particular college. Start with a few colleges that would be acceptable alternatives and apply for financial aid at all of them.
- What should you do if your child has his/her heart set on going to one college, but you received a better financial aid package from another college? Talk to the financial aid officer. While some colleges are receptive to matching other colleges' offers, others are not. In those cases, your best strategy is to review the financial aid calculations with the officer, looking for ways to increase the award. Many subjective factors go into calculating financial aid awards and you may be able to convince the officer to change some of those so the total award is increased. Perhaps just changing the composition of the award, so more is given in grants, will help.

Financial Management

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side 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 will need to start making decisions about 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. How often do you really need to eat out? Is cable TV really a necessity? Can you drive your car less and walk more? After a few months, it will become easier to determine 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. Consider determining a monthly amount of money in your budget that is for wants, and then when it's gone, it's gone until next month.

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 and what policies will impact your account. For example, most financial institutions have a funds availability policy, which means when you deposit a check, the money may not be available for a few days until the check clears. Use their online banking tools, so that you can keep close track of 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, which will be important in the future 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. It can be easy to abuse a credit card because it is so easy to use. Use it wisely because you don't want to be stuck with a large debt that accumulates monthly interest and can also damage your credit rating.

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

Top College Planning Mistakes

Ask any parent and they will tell you how fast time goes. It seems like minutes between your child's birth and when he/she starts college. That is why it can be difficult to accumulate the money you need to pay for your child's education.

As you start to develop a financial plan for your child's college education, watch out for these common mistakes.

Procrastination

Since you have limited time to save for college, the last thing you want to do is procrastinate on starting. Every year you wait to start saving will make it more difficult to save what is needed. The first step is to determine how much money you will need to pay for college.

Not Considering Your Time Horizon

Saving for college is different than saving for retirement because you may not have time to ride out market volatility. While you may be tempted to save with higher risk investments to help grow the college fund, you also need to recognize that you don't have a long time to rebound from volatile investments.

Saving with the Wrong Account

You can use almost any type of account to save for college, but it may negatively impact your savings and some types of accounts may hurt your chances of receiving financial aid. You should research the different types of accounts that are available for college saving so that you understand the features and benefits of each account to determine which would be best for your financial situation.

Underestimating Inflation

In recent years, college costs have increased by 5% to 6% annually. With college expenses increasing faster than other living expenses, it is important to consider appropriate investments as well as accounts that combat inflation.

Not Considering Student Loans

While no one really wants more debt, using the right Federal student loan programs allow parents and students to finance an education at a low interest rate. It is also important to complete a FAFSA form, which is used by the financial aid office at most schools and will determine if you qualify for financial aid.

Not Being Aware of Education Tax Breaks

Some of the best tax benefits are meant for college planning, which may be a tax deduction or tax credit. There are various options, and you should explore which ones make sense for your situation.

Paying for College with Retirement Funds

Many parents take distributions or borrow from a 401(k) or another type of retirement account to avoid taking out student loans. This can seriously erode your retirement savings plans. Remember, there are student loans, but there are no retirement loans. Using your retirement funds should be a last resort for paying for college expenses.

News and Announcements

From The Alexander Household

One of my favorite aspects of working with clients is the opportunity to walk with them through various stages of life. In addition to the decisions we make in our personal lives, I have a small part in many more through these relationships.

Last week our youngest son, Luke, moved into the Oklahoma Christian University dorm for his freshman year as Jackson returned to Oklahoma State as a junior. Everyone talks about the empty nest, but you don't know how it will feel until you are there. For the first time in a couple decades, we don't have daily responsibilities for children. After the first week, it still feels odd not to have any children at home and we are discovering the freedom to make plans more easily. Invitations to a friend's destination birthday celebration and to travel to see Isaiah Bailey in the lead role in Phantom of the Opera are easier to schedule.

The empty nest seems like a baby step toward retirement in terms of changing responsibilities and time constraints. (Just for the record, my family doesn't retire in their 60s; my goal is to work as long as I can do so productively.) Kerry and I look forward to the next phase as our children determine their paths and we are looking for ways to have a meaningful impact.

Carol Ringrose Alexander, CFP®
AIF®, CEPS, RLP®, CDFA®, CCFC
Executive Vice President

From the Bolander Household

We had a great vacation this summer and I added two more state capitol buildings to my list! Every few years at the end of July we drive up to the annual Bolander Family reunion near Toledo, Ohio. On the way up, we stopped overnight in Champaign, Illinois, for the first time. It is home to the University of Illinois which has a beautiful campus. We thoroughly enjoyed visiting with John's family, and on Saturday night a large group of us gathered at a local pizza parlor before everyone headed home. The restaurant had an entertaining DJ who played a fun game of "name that tune" with the patrons which made for some lasting memories.

On the return trip we decided to head north from Toledo through Michigan, its upper peninsula, and then down the west side of Lake Michigan through Wisconsin and Iowa. We visited the state capitol in Lansing, a stately building and one the first constructed along the pattern of the US capitol after its renovation in the 1880s. We spent a few days in Mackinaw City and visited John's cousins on Mackinac Island. (The "c" is silent because it was a French territory before the War of 1812.) We also took in the Wisconsin state capitol in Madison after visiting some dear friends in Milwaukee. It was all beautiful country, and much cooler than Oklahoma in July!

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

From the Sterling Household

It was an exciting summer of milestones in our household. From graduation and travel to a new driver in the family, it's been a busy stretch. Avery is officially off to college at Brandeis University in Boston, and although I miss her dearly, she is thriving and having a great experience. I am comforted knowing she is growing and learning.

Eli just kicked off his sophomore year of high school and is wrestling again this year. He started the year with a minor injury but should be healed before the start of the season. I love watching him grow and challenge himself, and I can't wait to cheer him on again this year.

With so much going on this summer, and the acute awareness of time passing, I took a little break from social media. I chose to keep all social media apps off my phone, and it was a great exercise. It allowed me to be fully present in these precious moments and soak up this time with my kids without distraction, a decision I certainly don't regret.

Now, we're back in the swing of another school year and looking forward to all that it may bring.

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