Last Updated: April 2021

Version 1.2

Questions - Contact Kevin T. Taylor

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Executive Summary

One of the more common reasons a client begins working with a financial planner is to find comfort in paying for grand milestone events like a wedding, home, or starting a business, etc. These milestones in life often trigger a simultaneous sense of joy and dread when a person pulls out their balance sheet. This combination of exuberance and concern will often drive them into the offices of a CFP® for guidance, finesse, and experience into their vision.

There is plenty of nuance in college planning, like, which schools are available to your children, their ever-rising costs, and where your child will find the most success being chief among those concerns. But there is also a plethora of predictable tent poles that our planners can help put in place. These changes will support your students goal regardless of the opportunities that present themselves. Those efforts to “control what we can control” are documented here:

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Know these things first (at any age):

Forgive yourself immediately

So many of our clients come into our meeting apologizing for "not doing this sooner" not "setting up a plan when the kids were born" and this kind of self-criticism is not constructive. This is a life-changing gift for your children and grandchildren, let's not focus on the time lost.

While it is true that the more time you have money growing for you the better, we want to focus on the time we have remaining. There are still so many techniques and time available to you that it is always worth getting a plan in place.

Review your InSight-Full ® plan with your CFP®

Often parents put the lives of their children first, this is one of those times that it's important to put yourself first. This is the 'oxygen mask dropping moment' where you need to confirm that you're in a position to begin supporting your children. This seems very counterintuitive for many parents. Arguably, college comes soonest, so isn't it the more pressing concern? The answer is, not, while the cost of college is rising, and the hurdle is likely closer in time, the total cost is far lower than retirement, and there are several more options available to pay for college than there is for retirement. Retirement is a subtle and pernicious object that must be accounted for so start by making sure you are still on target.

- You should never save money for your kids' college at the expense of your retirement goals.
- With proper planning, you can do both: Build a nest egg for your retirement years and start saving for college.
- There are lots of financial aid opportunities for college students, but you can't borrow for retirement.
- A financial advisor can help you figure out how much you need to save for retirement, and suggest how to offset the cost of college for your kids through 529 plans and other tools.

Colleges Savings Plans (529)

The 529 plans are one of the best, purpose-built, savings strategies that families have. The resources and flexibility of these plans are incredible. Tax-wise, there are few better options for using these funds and allowing them to grow tax-free. Investments should be reliable and the risk should be appropriate for the age of the investor. It's never too late to begin investing in a 529. As of 2017, there are several advantages to investing in 529s and using tax-free growth to reduce the total cost of college or even to pay off up to $10,000 of loans taken while attending school. 529s are simply a remarkable tool and likely a part of every strategy.

The caution with these plans comes in their fees. Several insurance companies offer plans that are well above the market cost of the plan and offer little to no added benefit. We prefer our clients use advisor-managed funds or index funds where appropriate because the costs are low and the investment strategies are likely to focus closely on the needs of the student.

A reasonable range for funds costs will be between .03bps and .50bps. Anything above this range should be considered expensive and should be reviewed with extra scrutiny and due diligence.

Roth IRA

Yes, a Roth can be a fantastic vehicle for saving for college (or any long-term savings goal) but there are unique advantages and disadvantages that you should be made aware of. Most of this will be in juxtaposition to the 529 plans.

While a Roth IRA may offer some tax advantages for saving and accumulating wealth, distributions from a Roth IRA can hurt eligibility for need-based financial aid. The strategy to avoid having these accounts support your college plans is to use them through college as accumulation vehicles and take the distribution (if needed) in the end to pay off debts. After all needs-based calculations are in the rearview mirror.

Like a 529 plan, contributions to a Roth IRA are made with after-tax dollars, earnings accumulate on a tax-deferred basis, and qualified distributions are entirely tax-free. But, annual contributions if you're eligible will be limited to $6,000 (2021 Limit, $7,000 if >50 years old) or your earned income for that year, whichever is less.

The student that owns the Roth IRA can take a tax-free return of contributions at any time. They do not need to wait until age 59-1/2. The earnings portion of a nonqualified distribution is subject to ordinary income taxes plus a 10% tax penalty, but the penalty is waived if the distribution pays for educational expenses or other qualified expenses.

This distribution does count as income in the year it is distributed. This is why it may affect FISA and other need-based aid. The Roth IRA has some flaws regarding how it is viewed in federal needs programs. The money in a Roth IRA is not reported as an asset on the Free Application for Federal Student Aid (FAFSA), which gives it an advantage if you're trying to get assets to your children for college and off your portion of the FAFSA forms. But, a tax-free return of contributions will count as untaxed income to the beneficiary, reducing eligibility for need-based aid by as much as half of the distribution amount.

The Roth IRA is a good, additional option for College savings, if the 529 is maxed out, the Roth can accommodate additional assets following the standard contribution limits. If the student has earned income (eligible income, which can be from a traditional job, or as part of cleaning services, yard maintenance, or other domestic chores that you pay them for) then this becomes a good place for them to save for the long term.

The best upside for the Roth IRA is if money is saved there and never needed for college. The Roth IRA will persist and put the student ahead of the curve for buying a home or their retirement.

Because Roths are not monitored with the same rigor as 529plans there is far more risk associated with the investments. You should work with a CFP® to make sure the investments are taking on the right amount of risk for the student and their timeline. Fees for the investments in these accounts should follow normal guidelines for fees vs. returns.

Savings accounts or UTMAs

There is no tax benefit to these accounts and they will be considered assets of the child on the FAFSA form, and likely disqualifying them from some or all financial aid. This might be the worst place to save for students. It has no tax added benefit, will be reported as an asset, and its earnings will show as income for the child if it is invested in equities or bonds.

There are traditional accounts and often parents and grandparents use them for 'saving' but this behavior is likely counter-productive to your goals and any FAFSA strategy. Simply put, if you or relatives are saving for college with these, consult a CFP® now to find alternatives that make sense for you and your Insight-Full® financial plan.

Savings Bonds

Regardless of where these came from they're likely a poor investment and may even have negative consequences for your child on their FAFSA request. Most savings bonds bought in the last 30 years have had an annual return below 4%, ones bought today are yielding close to 1.5%. These returns trail normal inflation by about .5-1% and trial the rising cost of colleges by north of 5%.

Additionally, they are likely assets of the child and will be fully counted when the child applies for aid. These assets would negatively impact the application if your child is counting on federal aid, could push them out of qualification, and they may end up having to take on loans that are 3-4 times higher than the yield on the bond ever was.

There are both better strategic and return-based assets that can support a child's efforts. But none of this stops the "grand tradition" of gifting these assets and generations of grandparents making this the “college planning gift” du jour. Cash is good, and cash in a 529 or Roth might be transformative.

Finally. I know it's hard to “look a gift horse in the mouth” but if any family members or friends are still using these “safe assets” a CFP® at InSight would be happy to support you in coaching them about the negatives consequences it may have on your college plan and how the liquidity limitations make those assets a permanent impairment for the plan. They may even thank you for putting their money into a better plan and increasing the impact these gifts could have on your child or grandchild.

Insurance Products

Using life insurance has some unique advantages and disadvantages as a college savings vehicle. In contrast to a 529 plan, when taking money out of the product or borrowing from it, there are no limitations for its usage. So if your college plan includes needing funds that cannot be covered then the use of a Whole Life plan can come in handy. Additionally, if college no longer becomes the direction the student is headed, the life insurance plan can stay invested for any number of purposes.

Permanent life insurance, as a tool for college planning, works like this: for every dollar, you pay in premiums, a portion goes toward the death benefit and the remainder is channeled to a separate cash-value account, which can also be invested in several options. So the result is a life insurance policy, with some investment accrual power. The insurance company will pay the guaranteed amount, and sometimes issues a premium above the stated amount. This portion of the policy can typically generate 3% to 6% but has been lower along with low bond yields. Then the money in the cash-value account grows tax-deferred, much like a 529 plan.

Other options such as variable life insurance allow policyholders more control. With these options you can select the sub-accounts, similar to a mutual fund, the perform linked to the underlying securities they buy. The reward is greater in these accounts, but the costs and risks are also higher.

A good differentiator in insurance policies is that they allow you to take a loan against your cash balance. The insurer will reduce your death benefit potion if you don’t pay back the loan, but that might be part of the college planning strategy.

The single greatest advantage of the Insurance policy strategy is that the policy doesn’t count as an asset for the FAFSA program. So if you are on the borderline for qualifying or need to get assets into the strategy without impacting your capacity for financial aid, insurance vehicles might be the right fit.

The biggest drawbacks for insurance products are their underperformance on the investment side and the high fees associated with sub-accounts and investment products. These are likely poor returning assets and less helpful over the long run. Insurance products are most likely late-stage options that can provide a little flexibility and optionality as students get closer to needing the funds.

Debt

Despite popular mantras, college debt is not the worst thing. It is our opinion that this is accretive debt, that a college education with debt is better than non-college education without debt, and that if managed well the debt you take on can be an instrument key to your success. The issue here is to plan and coordinate resources in a way that the debt, and the cost of debt, are minimized.

For most students, taking on debt is a way of life given the current economic conditions regarding higher education.

Do something today

Open an account, set an appointment, make a contribution, do something that you find in this Guidebook. Keep the momentum going and put some points on the board. It's less likely to get swept up in the chaos of life if you do something now.

What to do at Ages 0-5

Open Accounts

Getting the right kind of accounts opened and in place takes very little time and effort. Most savers can navigate this with the resources in the guide. Additionally, many of them have routine savings programs to auto-draft these accounts and find some kind of comfortable savings regimen. This type of automatic investing is a cornerstone to most planning.

Unfortunately, so many parents are turned off by the asset selection process and find reasons to delay. Doing anything in this phase is better than nothing and little should stop you from setting up a modest, index-based, account for families and friends to support you in these efforts.

Digging Deep

These are the most impactful years in college planning, they provide the most time and capacity for you to get things in order. Investments in this window will pay off three times more than those made closer to college. If there is a time to “dig deep” and make some sacrifices it's in this range and not as college gets close.

An extra $100 here and there in this phase should be worth north of $800 at your child's graduation. The incentive here is at its peak, coach yourself to match that incentive with commitment.

What to do at Ages 6-15

Participation and Saving

Make your kids part of the plan starting here. Your children should be as a part of the planning process as you are. They will have a deeper understanding of the potential and the sacrifice if they share in the process. You don’t need to know what school they will attend, what their passions are, or what they are going to be when they grow up. All they need to know is that saving and a strategy are in place and it is for them, and they need to make the most of it.

If your kids begin working in this range it is important to look into Roths and consult with your CFP® to follow the guideline on how both you and they can make the most of those accounts.

Measurement

This window is long and a great time to put the real value of time and attention to work. If you began the 529 and/or Roth when they were younger these accounts will yield quarterly statements by now that they can track and be made aware of. Without taxation, these programs will have the full effect of compounding made apparent to you and your children.

We encourage you to use these accounts as a foundation for the long-term understanding of the importance and power of money. Set for yourselves benchmarks and begin the dialogue regarding saving and sacrifice and the value of setting goals. This is a time where much of the “learning value” is realized and making this part of your family's plans regarding money makes a very ethereal concept concrete.

Make it Fun

There are very real and possibly exciting lessons that the whole family can learn in this phase and be a part of the process. Making this fun can bring onboard their enthusiasm and possibly their money.

Ages 16-22

Costs

By this phase the potential and options available to you students will become more apparent. You can begin earmarking dollars from the broader financial plan, including those that were developed from the 529s and Roths you've established. Once you begin identifying which colleges are viable you can begin working with your CFP® to harden the projections on cost - and develop a plan to match and time your investment to make the payments.

Begin Managing Portfolio Risk

Risk is a sensitive subject in this strategy, unlike retirement plans where you can work an extra year or two if there is a setback in the market, colleges might not be something you are willing to postpone. Several of the managed accounts that exist begin winding down the risk profiles early in the process (10-13 years out). We think that can rob investors of years of upside potential. Our clients work closely with their advisors to determine (based on their needs and market conditions) when the client will begin paying for college.

A common miscalculation on the part of investors is planning for the funds to be available at 18, few realize the potential of combining loans to help mitigate the market timing risk.

Make a “High School” plan

Consult our High School College Planning Checklist. The design of this list should help to get the most out of academic and other resources that become available to college-bound students. Several of the ways to mitigate the total cost of college and making it into the best financial fit can be addressed in those steps.

Students In College

Stay on track

Don't fail classes and graduate on schedule. To this point, the college plan has taken into consideration a certain amount of costs. Not graduating on schedule and missing this timeline adds ten of thousands of unaccounted-for dollars that will likely result in long-term debt.

Experts can disagree, but taking extra course loads at the expense of GPA is likely a better course than graduating late and expanding your debt burden. Unless you are bound for graduate schools the GPA in your underground fades in importance over time. The debt you accrue might be permanent.

Some debt is free, the rest is not

Several of the loans that are made available in college don't accrue interest until after graduation and some will compound from day one, so it's important to know the difference and the impact it will have on your post-graduation finances. If you can get federal back student loans (no interest until graduation) use these free and have your long-term investment continue to grow.

By working with your CFP® you will be able to dial in when you should stop taking loans and begin making payments from your plans.

Example: If a plan is designed to pay for 2 years of education, then the no-interest debt should be taken out in the Freshman and Sophomore years and payments will be made in full in your 3rd and 4th years. This combines the benefits of "no interest" and continues to capture some investment returns.

Students After College

Jobs that help support your debt are great

Any job that will help support your student loan repayments is good. Regardless of location or difficulty. Carrying seemingly low-interest payments for long terms is causing many to delay homeownership and other accretive milestones by decades. The cost of your debt is not always the issue, the opportunities that debt might be robbing you of might be. Have a plan in place to understand and mitigate that debt, and use the capital investment to support you in those efforts.

Your 529 is not done helping

You can use your 529 to repay some debt, this is a relatively new caveat to the program so use it to its fullest. A 529 created after graduation can still have tax and income benefits that can help you repay loans in a tax and earnings efficient way. This can then be repurposed for your children if the need arises.

Gap Year(s)

A gap year is not a negative thing, and should never be considered such. We would rather a student take a gap year or years after college, mature, or shore up some Community College credits and part-time study, or travel in place of going to college too early.

There are several added benefits to delaying college and attending when the time is right. There is a year of added growth in the investment portfolio and the student's maturity and focus. You have a year or two of work experience under your belt and added perspective. Additionally, students that take gap years are less likely to change majors or need to reboot their college after enrollment. Simply put there is a lot of upside to getting the timing right for going to school and the downside of graduating at 23 or 24 instead is pretty minimal. Especially if it means you graduate with less debt and more drive.

We recommend that if you work a gap year into your plan, that it still has goals and direction. Have a checklist or curriculum in mind for a gap year. If the plan is to get 3-4 courses completed great if it's to save a little extra money to use the next four years, fantastic. If it's to mature a little more, set some goals that will prove that time was well spent. The education gap comes at the risk of losing some educational habits and discipline so write down and document the goals you hope to achieve that will justify the inclusion in your plan.

Item A: High School College Planning Checklist

9th Grade		Task	Notes
Create a four-year study plan that includes required courses:			
	Some colleges and programs require baseline courses to be completed in High School, get those on your road map. Front loading your courses in 9th grade will allow you to take more College focus classes and spend more time with college prep in 12th grade.		
	If you can get college credits paid for by your High School it will lower the total cost of your degree. But some courses require certain High School prerequisites to attend. Get these taken care of in your Fr. and So. years.		
	Four Years of English and Writing		
	Three Years of Social Studies		
	Three years of Math		
	Three years of Science or Computers.Programing		
	Two years of a Foreign Language		
Research potential career paths:			
	Having an idea of what you want to do after college will help shape your class, extracurricular, and college choices. It will also help avoid changing courses in college and adding time and tuition to the plan.		
	Attend career fairs, job expos, and follow adults to work for a day here and there. These are free and give college		
Design High School in anticipation for College:			
	Make a list of potential areas of study in college and map them to college courses		
	Determine what College Courses and AP will carry over to College. For planning purposes College Courses (even Community Colleges) are more		

	likely to yield a college credit than AP programs.		
Set up a “College Application Folder” (See below for ideas):			
10th Grade		**Task**	**Notes**
Study for standardized testing regardless of your Plan:			
	The PSAT will help prepare you to take the SAT and ACT, and it may also qualify you for a National Merit Scholarship.		
	PSAT registration deadline (get this from your school):		Date: ____/____
	PSAT test date:		Date: ____/____
Research extracurricular activities of interest and things schools like			
	Find 3-5 activities a year to become involved in that you like, don’t overextend yourself, and talk to your friends about the activities they will be in too (at least one of these activities should be academics or community involvement)		
	Make sure to commit to these extracurriculars, one thing you are truly passionate about is better than 5 you dabble in. These shouldn’t be forced and a job is a perfect substitute.		
11th Grade		**Task**	**Notes**
Begin higher education now			
	Enroll in AP and/or dual-enrollment classes (through your school)		
	Obtaining college-level credit in high school will give you a jumpstart on college requirements, and it is often a cost-effective option.		
Make a "top schools list." (template below)			
	Review Schools that are noted for the discipline you enjoy		
	Review Schools that meet your distance requirements (the cost of traveling toan from the school is often overlooked as part of a financial plan)		

	Develop a roster of these schools average GPA and Test requirements, and their Annual Costs for tuition, room and board, and living expenses for the cities they are in		
Study for the SAT and/or ACT.			
	Enroll in a formal program if you can afford it		
	Avoid “peer” study groups, they generally lack the discipline and foresight required to get the most out of the time spent		
Make your Junior AP and standardized testing and study calendar			
	SAT registration deadline (July - May):		
	SAT test date (August - June):		Date: ____/____
	ACT registration deadline (August - June):		
	ACT test date (September - July):		Date: ____/____
	AP test registration deadline (September - November):		
	AP test date(s) (May):		Date: ____/____ Date: ____/____ Date: ____/____ Date: ____/____
Take your tests and good luck make sure you are doing the below			
	Manage your stress - they are just tests		
	Share your feelings and concerts with parents/guardians, and a counselor if available		
12th Grade		**Task**	**Notes**
Continue to enroll in AP and/or dual-enrollment classes (through your school).			

	Study for and retake the SAT or ACT (if you need better scores and feel they are attainable		
Make your make-up testing and study calendar			
	SAT registration deadline (July - May):		
	SAT test date (August - June):		Date: ____/____
	ACT registration deadline (August - June):		
	ACT test date (September - July):		Date: ____/____
	AP test registration deadline (September - November):		
	AP test date(s) (May):		Date: ____/____ Date: ____/____ Date: ____/____ Date: ____/____
Fill out and submit the FAFSA (starting October 1)			
Apply for scholarships and other financial aid awards throughout the year.			
	Pull out the "[College Application Folder]" to make this easier and less consuming		
	Get 5 certified copies of testing scores		
	Get 5 certified copies of AP tests scores		
	Make a budget for School Applications and try to get early application discounts		
School application deadline(s):			Date: ____/____ Date: ____/____ Date: ____/____ Date: ____/____ Date: ____/____

<table>
<tr><td colspan="2">Apply to all colleges and universities on your “top schools list” during the fall semester.</td><td></td><td></td></tr>
<tr><td colspan="2">Visit/contact any schools that award acceptance.</td><td></td><td></td></tr>
<tr><td colspan="2">Accept/reject admission award letters and due dates</td><td></td><td>Date: ____/____
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Date: ____/____</td></tr>
<tr><td colspan="2">Make your Senior AP Testing and study calendar</td><td></td><td></td></tr>
<tr><td></td><td>AP test registration deadline (September - November):</td><td></td><td></td></tr>
<tr><td></td><td>AP test date(s) (May):</td><td></td><td>Date: ____/____
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Date: ____/____</td></tr>
<tr><td colspan="2">Enjoy the college experience and reward yourself for the hard work you’ve put into this effort.</td><td></td><td></td></tr>
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Item B: My Top Schools List

School	GPA Avg.	Test Avg.	Annual Tuition	Room and Board	Cost of Living	Total Annual Cost

Item C: College Application Folder

Item(s)	Date	Check	
GPA and Transcripts			
Awards and Achievements			
Letters of Recommendation (3-5) • Academic • Athletic • Service • Community • Employment			
Screenshots of headlines, and other public endorsements			
Other			