# COLLEGE SAVINGS STRATEGIES
## for High-Income Households

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It's no secret that college is costly, so it's never too soon for parents to put a savings strategy in place to help fund it. The key is to start saving as early as possible and using a 529 plan to do it can help pay for eligible educational expenses. Your child may also be eligible to receive a merit-based aid, which could help offset costs.

According to the college board, the average in-state tuition and fees, plus room and board for a public, four-year college in 2019-2020 totaled $21,950 and for out-of-state, the cost was an average of $37,850. Even higher was the total cost for a private, nonprofit, four-year college at $49,870.[1] These costs were not adjusted for inflation, which is something else you should factor in during the course of your child's four-year college stint.

Additional college-related costs include living expenses, travel, food, books and other miscellaneous costs, which can significantly increase the annual costs of attendance, depending on the college.

Given the substantial expense associated with obtaining higher education and the fact that children from high-income families aren't likely to qualify for needs-based aid, consider the following savings strategies for your child's college education.

### Establishing Systematic Savings

College likely represents one of your largest lifetime expenses, which is why it's so important to start saving early, to help minimize the out-of-pocket expenses you could end up paying later.

- Saving in advance can help reduce the risk of not having adequate funds when your child reaches college age.
- By automating contributions (e.g., monthly, quarterly, or annually) to a 529 college savings plan, you won't risk spending the money on something else.
- Systematic contributions over time will help dollar-cost-average investments, which can help reduce risks associated with market timing.

### Setting Up a 529 Plan

You can open a 529 plan, even before you have a child, to help maximize your long-term savings.

- Earnings grow tax-free and withdrawals are tax-free, as long as your child uses them for qualified educational expenses,[2] which include items like tuition, fees, books and computers.
- If you start saving for college even before you have a child, you can name yourself or another relative as the beneficiary. As soon as your child has a Social Security number, the account can shift to him or her as the beneficiary.

- If your oldest child doesn't use all of the 529 funds before graduation, the account can switch to another child or grandchild. You could also use it for your expenses for continuing education.
- A 529 plan can only have one beneficiary, but you can make a beneficiary switch anytime without tax consequences.
- As of 2020, you can use a 529 to pay for up to $10,000 in annual tuition expenses at a K-12 elementary or secondary public, private or religious school.[2]
- As a result of the SECURE Act bill passed in December 2019, you can now use 529 Plan funds to pay off up to $10,000 of student loans per year.
- There is no time limit on 529 plans, so your savings can grow tax-free until your child needs them.

## Targeting Merit-Based Scholarships

While needs-based aid probably isn't in the cards for children from high-income households, merit-based aid, particularly from private universities, may still be a good possibility. Merit based-aid is specific to each college or university. Factors that generally influence the amount of merit-based aid awarded may include: the student's grades, test (ACT/SAT) scores, high school classes taken, level of interest in attending and area of focus. Certain schools are known for being more generous when it comes to lowering the sticker price than others. Including one or more of these colleges on your target college list could increase the chance of your child receiving one. In addition, because test scores play an important role in determining merit-based aid, investing in tutoring for entrance exams may payoff if it leads to your child receiving a scholarship. Here's a list of schools that provide varying percentages of students with merit-based aid.[3]

## Evaluating the ROI

Lastly, parents may have to make some tough decisions when deciding which college their child will attend. As part of those discussions, comparing the prospective return on investment for each school should be an integral part of the analysis. This exercise involves comparing the average starting and mid-career pay a graduate in the working world might expect by major/degree/school against the total cost of attendance for each school.[4] Consideration should also be given as to whether an advanced degree (e.g., medical, legal, etc.) would be required to pursue a chosen career path and what impact a specific undergraduate program may have on getting prepared and ultimately accepted to a desirable graduate program.

## Planning and Budgeting for Education Costs

Be sure to work with your wealth advisor on the best strategies for your situation to save for your child's educational expenses. Next to your retirement, it may be your largest expense. By taking advantage of a 529 plan, you'll be saving for at least 18 years if you start when your child is born, which could help offset the total costs when your child becomes a college student.

[1] "Trends in College Pricing 2018," Table 1. trends.collegeboard.org. https://bit.ly/2Ko9q6M
[2] "Avoid These 529 Withdrawal Traps," savingforcollege.com. https://bit.ly/2NcKst3
[3] "Most Students Receiving Merit Aid," usnews.com. https://bit.ly/2E7BV6q
[4] "College Salary Report," payscale.com. https://bit.ly/2KSqvol