HOW ARE YOU PREPARING FOR YOUR CHILD'S HIGHER EDUCATION?

As a parent, grandparent, or guardian, you likely want to set the children in your life up for the best possible future. As their high school days draw to a close and college potentially looms on the horizon, it's important to have the finances in place to help prepare them for the road ahead.

However, remember, while financial planning is essential for your child's future, open communication is just as important.

Jason Noble, CFP®, RICP®
PRIME CAPITAL FINANCIAL, LLC
850 Morrison Yard, Suite 450, Charleston, SC 29403
(843) 743-2926 | jnoble@primefinancial.com
PCIACHARLESTON.COM

Andy Merchant, Partner | Managing Director
PRIME CAPITAL FINANCIAL, LLC
801 E Douglas, STE 100, Wichita, KS 67202
(Direct) (316) 669-9413 | amerchant@primefinancial.com
PCIAWICHITA.COM

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Don't assume you know their dreams—perhaps you picture them at an elite university, but they're interested in a trade, or while you hope they'll attend community college nearby, they may have their heart set on an out-of-state school. Their wishes can drastically change your financial planning. Make sure to have an honest discussion about what you can realistically provide and what they may need to cover on their own. Share resources, talk about scholarships, explore FAFSA, and encourage a visit with a college admissions advisor. Starting these conversations early helps set them up for success well before graduation.

The average cost of a four-year college education can exceed $130,000, and while this figure may seem wildly intimidating, there are steps you can take to help your child navigate the financial realities of their further education. **Know that you have options for funding your child's education! Below are some of the strategies you can leverage for your child's future.**

529 Plans

A 529 plan, also known as a "qualified tuition program," is a tax-advantaged education savings plan offered across all 50 states and the District of Columbia, with two primary types: prepaid tuition, which locks in today's tuition rates, and the more common 529 savings plan. You're not limited to your own state's plan, as funds from any state's plan can be used nationwide. Although contributions aren't federally tax-deductible, earnings grow tax-free when used for qualified education expenses, and many states offer tax deductions. There are no income limits on contributions, and lifetime 529 plan contribution maximums generally range from $235,000 to $529,000. Thanks to the FAFSA Simplification Act, the so-called 529 grandparent loophole means grandparent-owned 529 plans are no longer added to your family's assets in FAFSA calculations, potentially preserving eligibility for more grants and scholarships, beginning for the 2024-2025 academic year. However, 529 plans have some drawbacks: a parent- or student-owned plan counts as an asset on FAFSA (although only a percentage of the total account is calculated), which may reduce aid eligibility, investment options are limited to one change per year, some plans have high fees, and 529 plans can only be used by a family member for qualified education expenses. If funds are withdrawn for non-educational purposes, earnings are subject to income tax and a 10% penalty, and any state tax deductions may need to be repaid.

Roth IRAs

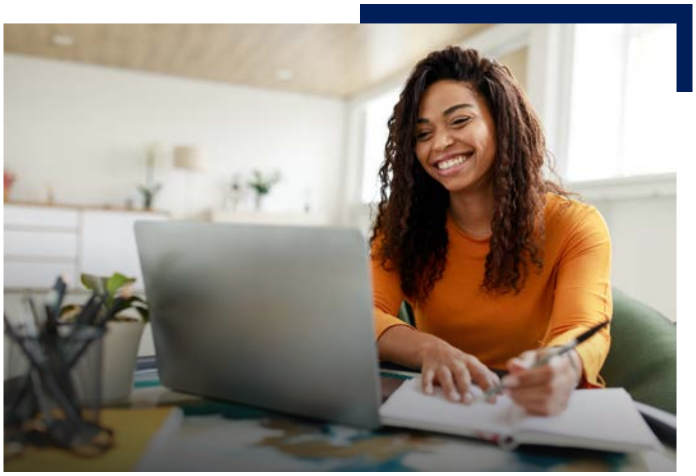
A Roth IRA can be a flexible alternative to a 529 plan for funding college expenses. You can withdraw the funds you've contributed to a Roth IRA for any purpose, including education expenses, as long as the account has been open for at least five years. For those over 59½, withdrawals of money you have contributed as well as any account earnings are both tax- and penalty-free if the account has met the five-year rule. The flexibility of a Roth IRA allows investment in a wide range of assets, and if college isn't in your child's plans, the funds can be repurposed for retirement with no required minimum distributions (RMDs) or tax implications.

However, high-income earners may be ineligible to open a Roth IRA directly, and annual contribution limits are relatively low ($7,000 in 2025, or $8,000 for those 50 and older). While a Roth IRA doesn't affect financial aid calculations as an asset, any funds withdrawn for college will count as income in the following year, which could impact financial aid eligibility.

Life Insurance

Permanent life insurance policies, like whole or universal life, offer both a death benefit and a cash savings component that can be borrowed against to pay for college expenses. One advantage is that these cash value policies often credit interest at a guaranteed rate (based on the claims-paying ability of the issuing insurer), and the money borrowed is typically not taxable as long as the policy remains in force. Additionally, if the insured passes away, the death benefit and remaining cash value are generally tax-free when passed to beneficiaries. Purchasing a permanent policy when a child is young and healthy ensures their future insurability, even in the event of a serious illness.

However, funds borrowed for college are considered income on the FAFSA the following year, which could impact financial aid. Life insurance policies can be costly, especially if purchased later in life or if the insured has health issues, so it's often recommended to buy policies for young, healthy children. Borrowing from the policy also incurs interest charges until repaid, and regular premiums must be maintained to keep the policy active. Working with a professional is advisable to ensure clear understanding of policy structure and terms.



While preparing for college costs can be a daunting task, connecting with a financial advisor can help you find a strategy that would be best for you and your child.

If you need help with college planning, give us a call today! We are here to help with the complexities of financial planning while keeping your financial goals in focus. Give Jason Noble a call today at (843) 743-2926 or call Andy Merchant at (316) 669-9413 to take the first step toward designing a portfolio tailored to you.

Sources:
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