PAYING FOR COLLEGE

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Tracking #: 1-05110767

KEY TAKE-AWAYS & ACTION ITEMS

1. MIND THE GAP
   - Don't be surprised when the amount the institution thinks you can pay is considerably higher than the amount you can afford. The Federal formulas have consistently overestimated what middle class families can afford.
   - Action Item: Have a plan to manage the gap!
2. BETTER TO EARN INTEREST THAN PAY INTEREST
   - Make the power of compounding work for you. The total cost of college is lower when you save and invest rather than taking on loans.
   - Action Item: Determine your saving plan.
3. KNOW YOUR NUMBERS
   - Action Item: Work with a financial planner to determine how much you can afford and how much you need to save.

WHAT WE WILL COVER

- MYTHS VERSUS REALITIES
- CASES: STRATEGIES FOR PAYING FOR COLLEGE
    1. HIGH EARNER / HIGH SAVINGS
    2. HIGH EARNER / LOW SAVINGS
    3. PAYING FROM RENTAL INCOME / DIVIDENDS
    4. DIVORCED PARENTS
    5. LEAVING A LEGACY: MAKING SAVINGS LAST LONGER
- HOW TO:
    1. ORGANIZE ACCOUNTS
    2. FINANCIAL BEHAVIORS AT EACH LIFE STAGE
    3. TALK TO KIDS ABOUT PAYING FOR COLLEGE

MYTH 1

IF MY CHILD GETS IN, THE COLLEGE WILL OFFER ENOUGH AID SO SHE CAN ATTEND.

REALITY

Colleges often overestimate middle class families' ability to pay because parent's home and consumer debt is not a factor in financial aid formulas. A family with $350,000 before tax income, $500,000 non-retirement assets, and one student in college should expect to pay about 25% of their income on college.*

THE UNIVERSITY OF CHICAGO Financial Aid

Estimated Costs of Attendance	
Tuition	$57,642
Student Fees	$2,910
Room and Board Costs	$17,004
Subtotal: Comprehensive Fee	*$77,556*
Books and Supplies Expenses	$1,800
Personal Expenses	$2,175
Total Cost of Attendance	$81,531
Estimated Grant Aid Available	
Total Grant Aid Available	$0
Estimated Net Price (Costs - Grant Aid)	$81,531
Estimated Other Aid Available	
Total Other Aid Available	$0
Estimated Cost of Attendance (Net Price - Other Aid)	$81,531

WISCONSIN UNIVERSITY OF WISCONSIN–MADISON

Estimated Cost of Attendance (COA) for 2020-2021		In-state resident
Tuition:	$38,974	$11,086
Books & Supplies:	$1,150	$1,150
Room:	$7,540	$7,540
Board:	$4,660	$4,660
Miscellaneous:	$2,332	$2,332
Travel:	$1,324	$800
Total Cost:	**$55,980**	**$27,568**

Estimated Need Calculation for 2020-2021		
Cost of Attendance (COA)	$55,980	$27,568
Expected Family Contribution (EFC)	- $111,413	- $111,413
Total Need:	**$0**	**$0**

HOWARD UNIVERSITY

Academic Year: 2017-18	
Estimated tuition and fees	$25,697
+ Estimated room and board charges (Includes rooming accommodations and meals)	$13,504
+ Estimated cost of books and supplies	$1,500
+ Estimated other expenses (Personal expenses, transportation, etc.)	$2,500
Estimated total cost of attendance:	$43,201
- Estimated total grant aid: (Includes both merit and need based grant and scholarship aid from Federal, State, or Local Governments, or the Institution)	**$16,200**
Estimated Net Price After Grants and Scholarships:	**$27,001**

This institution requires that full-time, first-time students live on-campus or in institutionally controlled housing.

Grants and scholarships do not have to be repaid. Some students also qualify for student loans to assist in paying this net price; however, student loans do have to be repaid.

Expect luxury good pricing from top tier and colleges in popular cities: New York, Los Angeles, Boston, etc.

Non-residents with higher incomes might get a better value at state universities.

State and city colleges generally offer the lowest cost for in-state residents.

Historically Black Colleges and Universities (HBCUs) may offer incentives even to higher income families.

*2020 estimates based on each college's online net price calculators.

MYTH 2 MY CHILD WILL GET SCHOLARSHIPS.

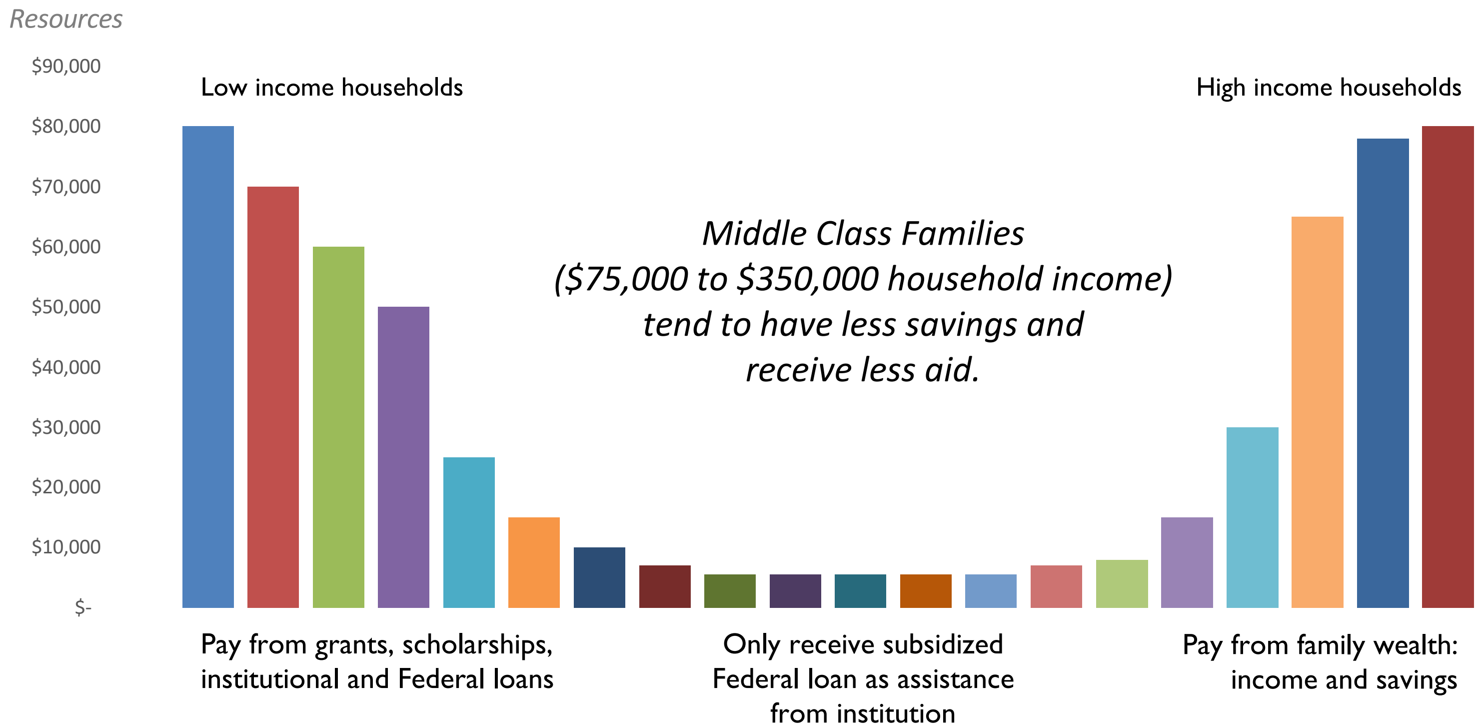
REALITY Merit-based awards are harder to obtain.

Many colleges prioritize low-income, first generation, Black and Latinx students when allocating financial aid.

Some colleges do not offer merit-based awards. If they do, generally, only the top 10% of students nationally receive full scholarships.

Each university has their own policy on distributing institutional money and this can change each year.

Families need to call the financial aid office during the college search process to learn about the school's philosophy on financial aid.



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MYTH 3 IT'S BETTER TO NOT SAVE TO MAXIMIZE FINANCIAL AID.

REALITY

Reporting no assets will lower the Expected Family Contribution (EFC) but not eliminate it for most families. It is more prudent to save.

High Savers: $500,000 in Non-Retirement Assets	
Parent(s)' Adjusted Gross Income (AGI)*	Expected Family Contribution (EFC)**
$300,000	$111,413
$200,000	$83,594
$100,000	$50,661
$75,000	$42,397

Low Savers: $0 in Non-Retirement Assets	
Parent(s)' Adjusted Gross Income (AGI)*	Expected Family Contribution (EFC)
$300,000	$81,651
$200,000	$53,832
$100,000	$20,898
$75,000	$12,635

Go to FAFSA4caster, https://studentaid.gov/understand-aid/estimate, to estimate your expected family contribution.

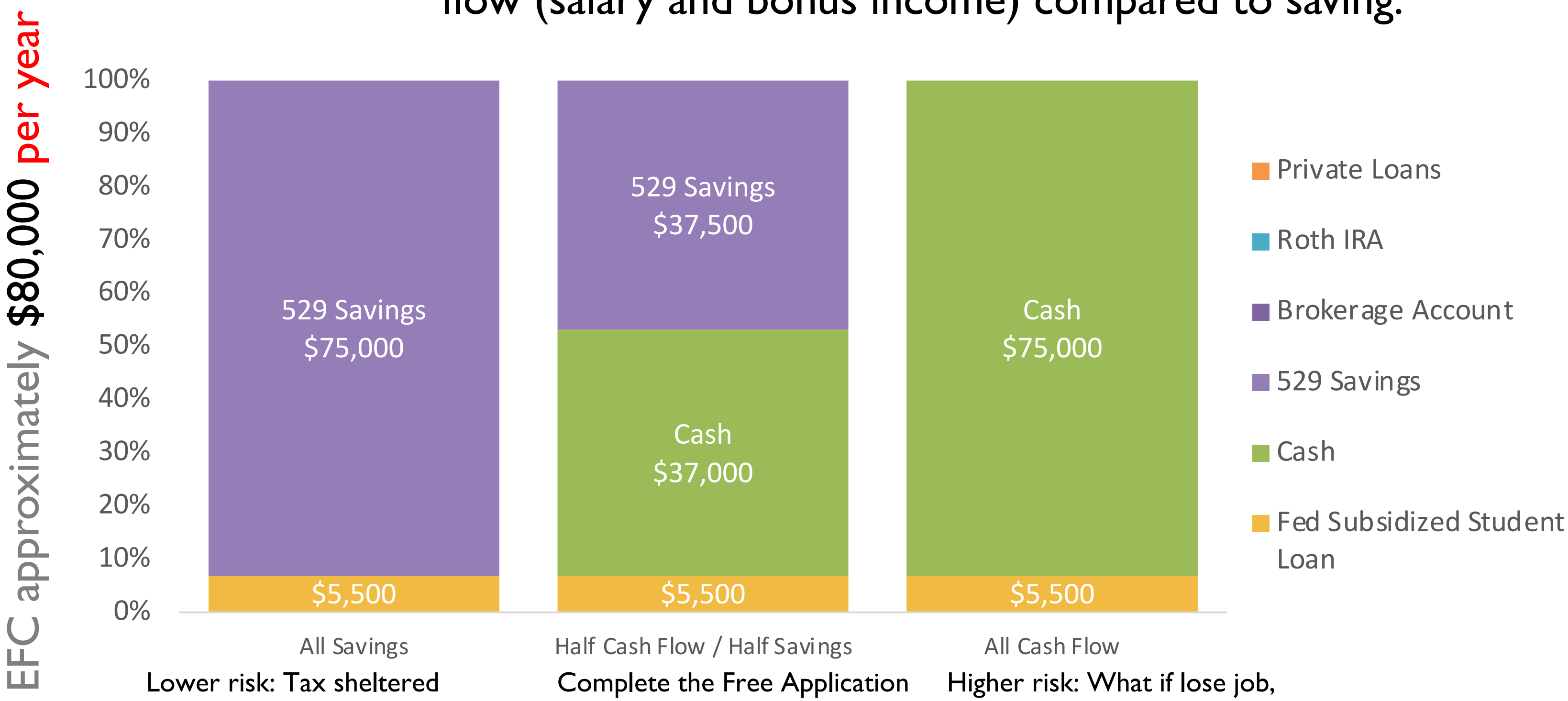
*Adjusted gross income (AGI) includes more than wages earned. For example, it can include alimony, Social Security, and business income.
** Hypothetical uses University of Wisconsin at Madison cost of attendance for non-resident, $55,640 for 2020-2021 academic year.

CASE 1 HIGH EARNER / HIGH SAVINGS

STRATEGY

Pay from cash flow and/or savings.

Generally, it is riskier to pay 100% of expenses from cash flow (salary and bonus income) compared to saving.



Lower risk: Tax sheltered growth in 529 accounts means total dollars needed is less than if pay from cash flow during college years,

Complete the Free Application for Federal Student Aid (FAFSA®) every year to take advantage of Federal subsidized student loan.

Higher risk: What if lose job, breadwinner dies prematurely, or income does not keep up with rate of college inflation?

States may offer tax credits to their state's 529 account.

Cannot deduct full amount of college expenses. American Opportunity Tax Credit (AOTC) is $2,500 per eligible student per year for the first four years.

Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

CASE 1 EXAMPLE

HIGH EARNER / HIGH SAVINGS

Pay 100% from savings (529 or taxable investment account)
Assume child is12 years old (six years to enrollment)

Step 1: Determine Amount Needed Day One of Enrollment	
Today's cost of 1 year of college	$80,000
1 year of college cost in 6 years	$100,000
Total cost of 4 years, amount needed day one of enrollment.*	$340,000

* Assume 4% tuition inflation and day one of enrollment all investments liquidated (sold and put into cash).

Step 2: Determine How Much to Save	
Total cost of 4 years, amount needed day one of enrollment.*	$340,000
Investment Time Horizon	6 years
Expected Investment Annual Return	6%
Amount needed to save annually	$50,000
Or Lump-Sum Needed	$240,000

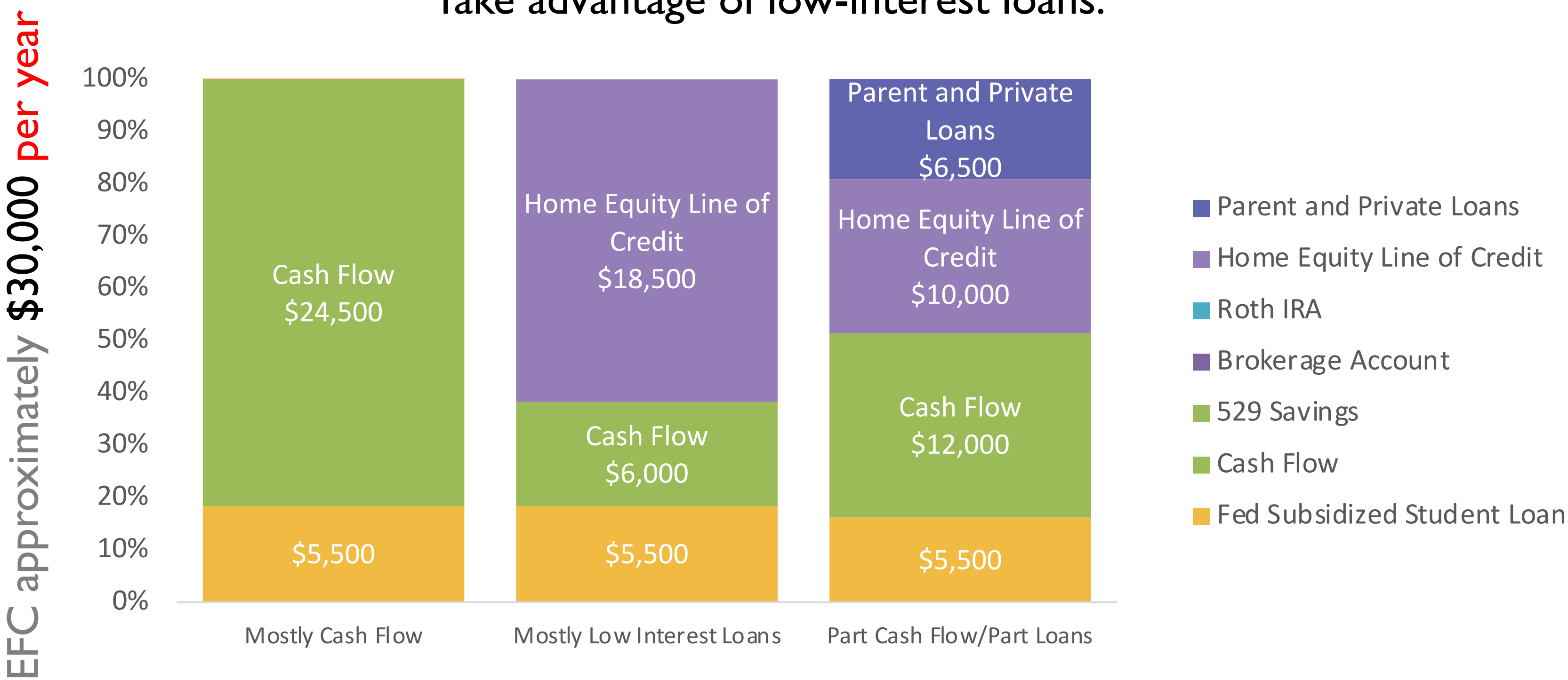
Ask yourself:

Would it be more painful to save $50,000 a year for the next 6 years or pay $100,000 a year for 4 years in the future?

CASE 2 HIGH EARNER / NO SAVINGS

STRATEGY

Reduce expenses or increase income to pay from cash flow.
Identify all resources available.
Take advantage of low-interest loans.



Carve out room in family budget to accommodate college expense. Pay off mortgage, car and parents' student loans before first year of enrollment. If parent is counting on bonus money to pay tuition, be aware that bonuses are unpredictable.

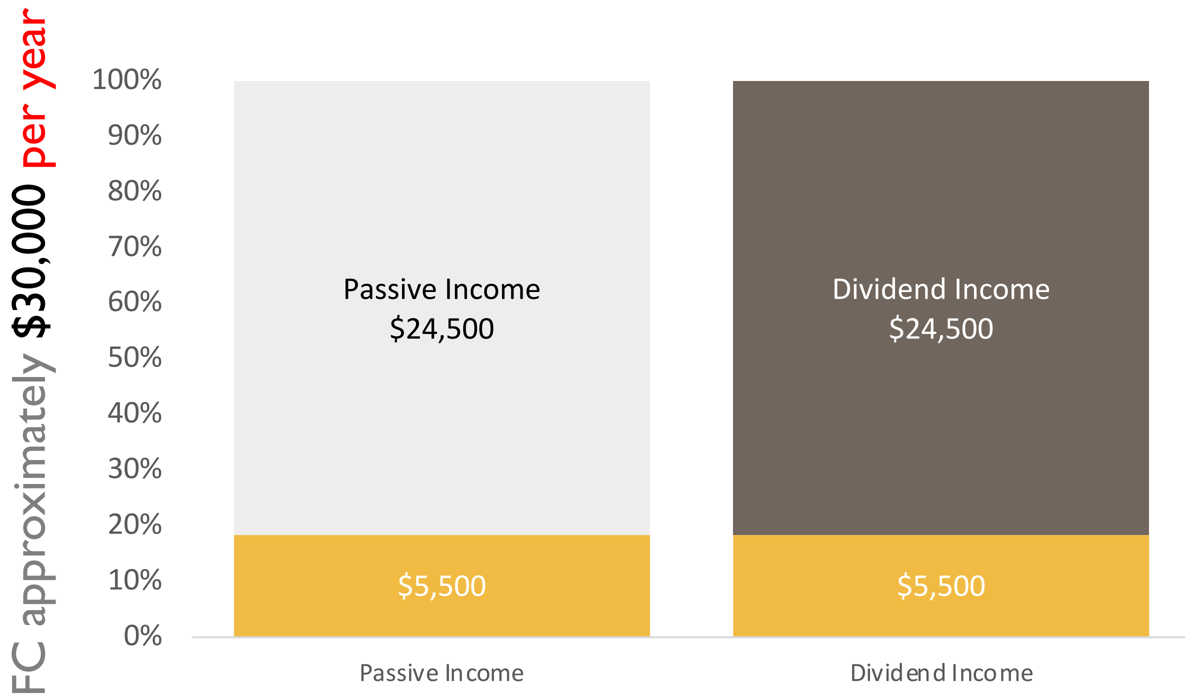
If interest rates are very low, under 3%, then it might be better to borrow and use cash flow for other things, like saving in a 401(k) if the parent is close to retirement.

Parent and private student loans often come with higher rates and fewer workout options if the borrower loses her job and cannot pay the loan.

CASE 3 PASSIVE INCOME

STRATEGY

Preserve assets by paying college expenses from monthly and/or quarterly dividends.



In order to generate $24,500 in dividend income	
Dividend Yield	Capital Base (Stock Investments) Needed
2%	$1,225,000
3%	$816,667
4%	$612,500

Greater risk if just have one source of income.

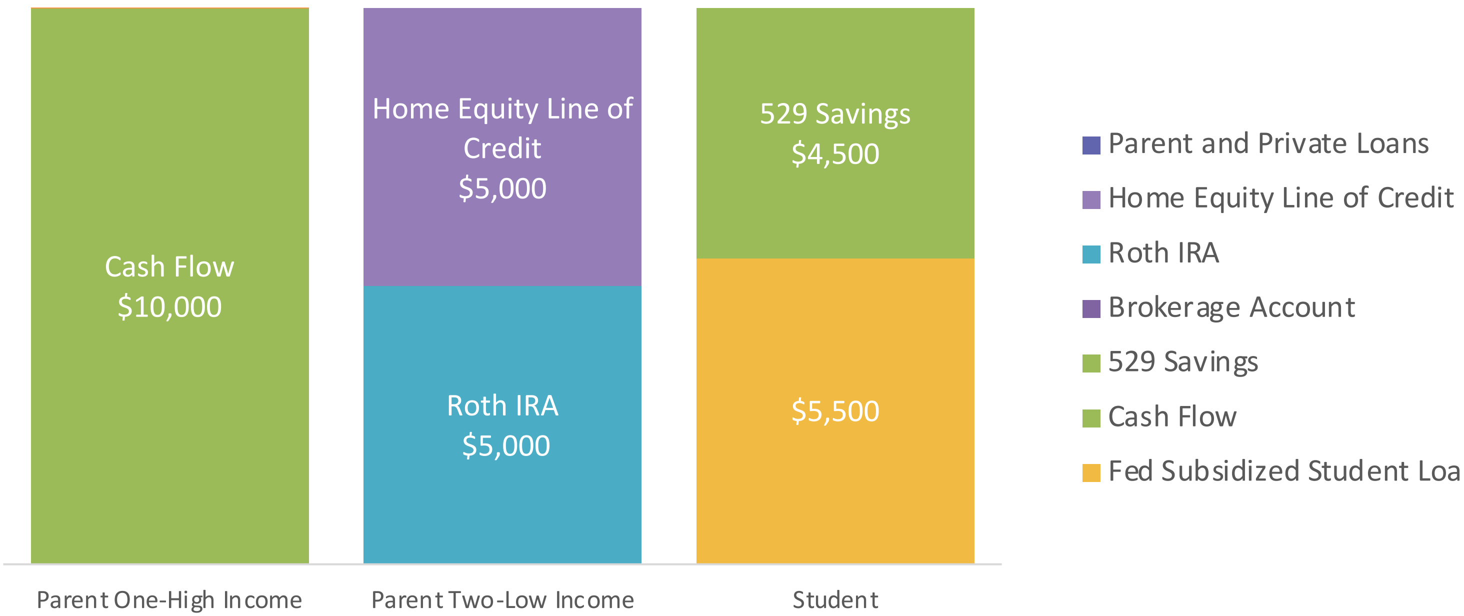
Risk if companies lower dividend payout or dividends taxed at higher rates. Investing in stocks involves risks including loss of principal.

CASE 4 DIVORCED PARENTS

STRATEGY

Split costs based on divorce agreement.
Colleges might consider only one parent or both, as well as new spouses' incomes and assets.

EFC approximately $30,000 per year



A high earning parent might be able to fulfill her obligation from her earnings and savings.

A parent with lower earnings might not be able to cover amounts originally agreed to in divorce decree. Borrowing when rates are low is preferred over drawing down retirement assets. The Roth IRA can be used for college expenses without penalty in most cases.

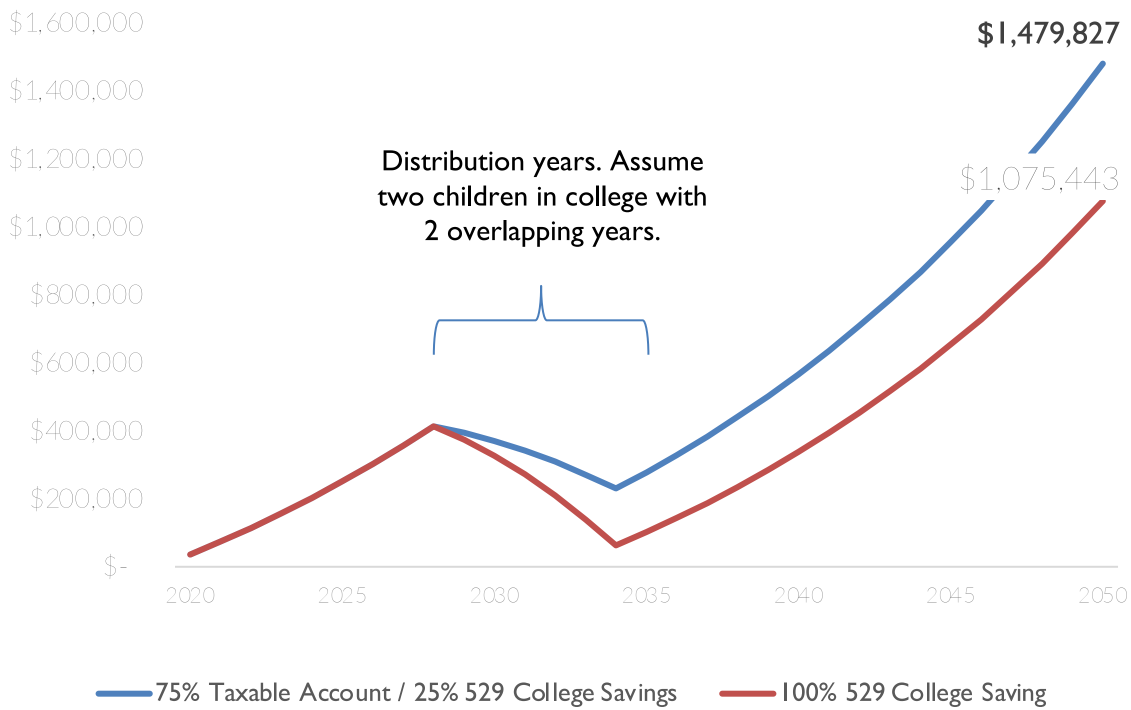
If a parent needs to change terms of the divorce agreement and mediation is not successful, work with a family law attorney before the student enrolls.

CASE 5 STRATEGY

LEAVING A LEGACY: MAKING SAVINGS LAST LONGER

If borrowing rates are very low student loans might make sense.

If borrowing costs (loan rates on home equity or student loans, for example) are low, overall wealth might be greater or preserved through use of loans.



Blue Line Assumptions:

- Save $3,000 a month 75% in taxable investment account and 25% in 529 college savings
- Take out student loans compared to saving 100% in 529 and no loans.
- Investment growth rate of 6% and loan rate of 6%.
- Pay off student loans within 10 years of graduating.
- Two children with two overlapping enrollment years.

Learn more about Federal student loans, borrowing terminology and rates at https://studentaid.gov/understand-aid/types/loans/interest-rates

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HOW TO: ORGANIZE ACCOUNTS FOR COLLEGE GOALS (EXAMPLE)

COLLEGE

529 EDUCATION SAVINGS ACCOUNT

$15,000 per child/beneficiary to avoid gift tax. IRS permits "front-loading" 5-years. $15,000 x 5 = $75,000 upfront but assumes no other gifts.

Invest for growth, reduce risk closer to enrollment.

One account per child or change beneficiaries if multiple children.

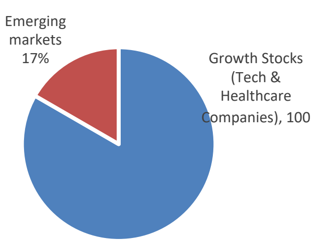
Investigate your state's tax deductions and credits.

Not limited to your state's 529. Can save in 529 plans of other states.

Could use up to $10,000 to pay student loans.

Example: $100,000

18-year time frame, Aggressive risk



TAXABLE ACCOUNTS

SAVINGS ACCOUNT AT BANK

Pay taxes every year on dividends and interest income (lower tax rate than ordinary income).

Example: Keep upcoming year's tuition and college expenses in cash savings.

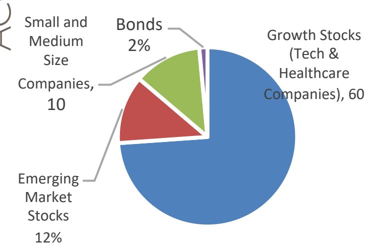
Saving Hacks:

1. Set aside annual bonus.
2. Deposit tax refund into savings account.
3. Set up or increase payroll deduction to savings account.
4. Deposit gift money to savings account.

BROKERAGE ACCOUNT

Example: $100,000

10-year time frame, Moderate risk



RETIREMENT

Roth or Traditional IRAs

$6,000 annual contribution + $1,000 if >50

Tax-free distributions: invest more aggressively

Assets currently not counted in financial aid FAFSA. Might be counted on CSS form.

Contributions counted as income.

Income counted when distributed. Use last year of college.

OTHER

Whole Life Insurance

Borrow from cash value. Due to high costs and low rates, it can take many years to accumulate cash value. Consider after saved max in 529 and IRAs.

More suitable for families with low return needs and very high level of assets due to liquidity risk.

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The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change. Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

HOW TO: FINANCIAL BEHAVIORS AT EACH LIFE STAGE

INFANCY TO PRE-K

Key disciplines:

1. Manage cash flow
2. Keep housing below 20% of expenses if planning to have children
3. Build up emergency fund to at least 3 months expenses
4. Education expenses: explore low-cost options – public schools and park district
5. Pay down parents' student loan debt.

Key Risk:
Paying too much on housing

K – 8

Key disciplines:

1. Manage education expenses: consider private options only for high school.
2. Aggressively reduce parental debt: must be paid off before college enrollment.
3. Increase college saving in 529s or Roth IRAs.
4. Teach children about trade-offs (help children evaluate options) and reducing waste (managing scarce resources).

Key Risk:
Not making most of teachable moments. Help your child deal with adversity.

HIGH SCHOOL

Key disciplines:

1. Pay education expenses from cash flow.
2. Research costs: find best in-state and best elite school options

   http://nces.ed.gov/collegenavigator/

3. Prepare children for adulthood: Teach children about non-academic success factors: applying for jobs and leadership.
4. Teach children about budgeting and managing debt.

Key Risks:
Not properly assessing your child's skills. Not communicating.

COLLEGE

Key disciplines:

1. Pay part of tuition out of cash flow.
2. Freshman/Sophomore Years: Pay part of tuition out of 529

   Junior/Senior Years: Pay part of tuition out Roth IRAs.

3. Take advantage of student loans when rates are cheap.
4. Teach children how to research and apply for summer internships and negotiate salary. Have a process for managing career.

Key Risk:
Undervaluing state or foreign schools

HOW TO: TALK TO KIDS ABOUT PAYING FOR COLLEGE

VALUES	• If you started saving for college, let your child know. Children who know that their parents are saving for college are more likely to enroll. This tells the child: "You are worth investing in."

BIG MONEY BEST PRACTICES	• Teach how to do research
	  • Quantitative rank ordering of program of study, costs, location, diversity, and other factors can reduce a college's halo effect.
	  • Primary research. Call financial aid offices, talk to current students. Complement online research with interviews.
	• Teach decision making styles
	  • Are you or your child optimizers or satisficers? Adopt a deliberate approach for six-figure decisions. Look beyond a school's brand. Glossy brochures are no substitute for visiting a school.

FAMILY DYNAMICS	• Be aware of legacy biases. The best college for the parent may not be best for the child.
	• Strengths overdone.
	  • If close-knit family relations or not sticking out in your community is a dominant value, this might discourage a child from seeking experiences away from home.
	  • Thriftiness overdone might place too much emphasis on programs that do not fit a child's natural talents. For example, MIT offers full scholarships, but your child may not want to become an engineer.

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