BUDGETING FOR COLLEGE:

In the last few newsletters, I have highlighted information about budgeting for college. To help families make sense of this information, I am hosting guest speaker, Trevor Mizrahi on Thursday, March 14 at 6:30pm in the Library. Trevor specializes in helping families to navigate financial aid planning for college. Participants are often shocked by what they learn. If you are a parent of a 7th grader all the way up to 11th grade, I encourage you to attend this info session. Please feel free to invite a friend, and RSVP to lgonzalez@bishopdiego.org.

Topics that will be covered include:

- The Most Generous Colleges With The Highest Starting Salaries Upon Graduation,
- How A Family Can Avoid Debt For College,
- How to Maximize Your Potential To Receive Grants/Scholarships, and
- A Basic Overview of the College Funding Process

What follows is a recent article written by Trevor:

“Most parents find it difficult to carve out enough time in their busy schedule to figure out the latest rules on financing a college education. And a 529 college savings plan may seem like you are doing your part to plan for the future. But were you given the best advice when you sat across the table from your advisor who advocated for this type of savings plan? To be clear, you should consult with your tax preparer, CPA or financial advisor to ask more detailed questions on how this affects your personal scenario after reading this article.

Making those monthly contributions in a college savings vehicle is easy to do. Out of sight, out of mind. Eventually you will have saved up enough to begin chipping away at the college expenses; hopefully. But what happens when your child gets a large scholarship and
the need to deplete 100% of the fund is not necessary? Or if your child chooses to take a gap year to find themselves and later decides that college isn’t for them? How about the most common scenario that parents face which is the amount of savings accumulated penalizes them from receiving all of the financial assistance they would have otherwise received had they never started saving in the first place? To give you a dose of reality, there is an abundant amount of financial assistance available for the pursuit of an undergraduate degree that if done correctly, you really don’t need to pay full price for an education. And since many private universities have a specific question on their forms that ask about college accounts that were set up for the benefit of the student, your hard work can end up working counter to how you envisioned it would when you first set it up.

This brings us to how many investors have altered their strategy when preparing to pay for college expenses. Due to the new tax law changes in the Tax Cut & Jobs Act (TCJA), parents are allowed to use 529 funds towards high school tuition. Whatever your investment strategy is, it is important to know that this could be a winning strategy for a variety of reasons. Let me just share one: In almost every scenario, the closer the child gets to college, the 529 college fund will be invested more conservatively in order to avoid major losses like we saw in 2008. What that means is if you were to use the funds and apply them towards tuition for sophomore, junior, and senior years in high school, the reality is you are not really losing out on potential gains. Just like everything else you want to do your due-diligence before making this your plan.

Here are a few words of caution as you explore this opportunity:

• Do not get discouraged by the word “penalty” if you are told that you will pay one if you choose to implement this strategy. In CA, the penalty is 2.5% on the gains only. Compare this to 6% to 12% that a college can penalize you just for having that savings account to begin with.

• Rather than continuing to fund a 529 college savings plan, find out if you are able to contribute to a Roth IRA instead. This type of account does not penalize you for
having savings and you can use those funds for college tuition without incurring a penalty when funds are withdrawn.

• 529 college savings accounts are listed as a parent asset. If the fund was created by the grandparent and is owned by the grandparent, you do not list this as an asset on the FAFSA form. You will, however, list this fund if you are completing the CSS Profile. Tip: It is always best to have funds saved in the parent’s name rather than the student if you are applying for need based financial aid.

• Common Question About 529: “Can’t I transfer the funds in my eldest child’s name to my younger child and avoid this scenario altogether?” Answer: Colleges figured out that strategy a long time ago and recognize that parents don’t have a “favorite child.” Even if you do transfer the funds they will count the full amount as an asset.

• How Much Can Be Applied Towards High School Tuition Each Year from A 529 Account? Answer: $10,000 per year per child. Use The Online Net Price Calculators To Determine How Much You Will Pay Each Year For College. Each college has a calculator on their website which provides families with a ballpark idea of how much they will need to pay for that particular school.

• Avoid Gains In The Base Income Year. If Possible, Exercise These Options Prior To Sophomore Year Of High School. Base income year is the income tax return

• colleges consider when you are applying for financial aid. Example: A student starting college in fall of 2022 has a base year of 2020. It will be two years prior to when the student begins college.” - Trevor Mizrahi, Premier College Guidance -

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