Unknown Speaker 0:00
confused by finances investing a state and retirement planning? Well, we went to school so you don't have to welcome to finances and with Kathy and Norman.

Unknown Speaker 0:11
Hi, welcome to finances and college savings plans. We went to school so you don't have to. As I said, previously, I've got two kids that are in school ones graduating ones going into senior year next year came home for two a couple weeks off to them lovely reminder of you have to do your FAFSA, I really dread doing the FAFSA every year. And to be honest, if I really sat down are probably only take me 1520 minutes to get it done. But it's such a pain to sit there and try to I've got to log into all of my accounts and find out how much do I have in my retirement? How much do they have left in their college savings plans? You know, how much do we have in checking and savings and all that other stuff that you've got to enter there? You know, I got to thinking maybe, you know, we could try to find ways you know, another way to episode here and really inform people on ways to save for college because frankly, you know what, what they're really getting in grants and scholarships and all that from the schools doesn't really cover the this crazy cost of tuition, honestly,

Unknown Speaker 1:12
yeah, there's so many ways that we can pay for college or pre pay, I should say, for college, and some are better than others. Some offer a lot more benefits than others. And everything's available, because there are some benefits. But there's some things to look out for as well, I know most common is the 529 plan. And one of the great things about it is that you can contribute so much money to it over your child's lifetime. In fact, you can put up to $200,000 if you and or family members are able to. So that's it's a great plan for that. And your investments that you put in there are going to grow tax free, so you're not having to pay any taxes on that. And in fact, when you withdraw them, they're going to be tax free as well. 529 is great, because it pays for almost every avenue of their education, you're gonna be able to pay for books, tuition, room and board. It also can be applied to grad school, so maybe you hadn't completely funded it prior to they're going into their undergrad. But if it's if there's still money leftover, they can use that for grad school,

Unknown Speaker 2:09
you know what, you can also recently, tax less change, you can actually use that for private school as well. So you can actually use it for high school. If you're if your child's going to private school.

Unknown Speaker 2:19
It's actually k 12. Yeah, you're

Unknown Speaker 2:20

right. Yeah, you're right. I just also want to point out, so you know, when we do this 529 it's, it's an investment the same way you're doing an investment in your retirement. So there's a bunch of different plans that you can choose from. And I know I tell people, you know, there's a set it and forget it kind of way, if you're really not investment savvy, and you're afraid to really start playing around with the different kinds. I know, the one that I had for both my children had this age plan. And so I started when they were maybe five, it was just it was more aggressive as they were younger. And then as they got older, it got less aggressive. So just

Unknown Speaker 3:01
like your 401k. Right, as you're getting closer, it gets safer. So you'll have that money available. Make sense? Exactly,

Unknown Speaker 3:06
exactly. So that's really the great part about this 529 is that while it is investing, you really still don't have to think too hard about where you want to actually put those that money, what you know what buckets you want to pick from, you can just plug in their age. And that's that and it was completely managed

Unknown Speaker 3:25
there operated by the states. And I believe all 50 states offer them if not almost all of them do. And you just have to get on to your state's 529 plan, you are able to put money into a different state's plan. If you choose to, for some reason, maybe you know, you're going to be moving before your kid goes to college and you're hoping that they'll go to school or you're hoping to go to school, even in that state, you're welcome to open it in a different state however, that money will be available for you to whatever school they go to. So you don't have to be in the school that they're going to go to the state they're going to go to school. And what one of the real benefits is, is that you also get to take tax deduction for the money you put into the 529. And if your state allows it, where you're paying state taxes, you also get to take that deduction on your state income taxes as well. So it's definitely something worth looking at which state you're putting it into

Unknown Speaker 4:13
an order to open it, you just need social security number or tax ID, you can open this for anybody, you can open it for your niece, your nephew, your brother, your sister, anybody at all, and anybody could contribute to it as well. So if you just pass that account information along, let's just say for birthdays, I know the kids aren't going to be too happy with that, but they will be later. You know, just pass that account information and grandparents and family members can start contributing to that instead of buying them all these toys that you know aren't going to help them when they get to college. You know that that's really a great way to to again to gift to your to your child

and to really start investing to their future.

Unknown Speaker 4:52
So right now the College Board is saying that the school year 2018 to 2019. The cost of a four year college was 21 Thousand basically for a public college and 48,000 for a private college. So this is not the kind of thing that you're going to you should just hope you can come up with the money by the time you're going to kids going to go to school trying to make these plans and put money aside is exactly what you want to be doing.

Unknown Speaker 5:13
Well, I'm going to tell you, my my daughter goes to a private college and my son happy with state school. And that's exactly what tuition is. Oh, wow. Yeah, that's exactly what tuition is for both of them.

Unknown Speaker 5:24
Now, something cool that just happened is the secure act was just signed last week. And the secure Act says that you are able to use your 529 account to pay up to $10,000 of your student loans off. So that's a brand new thing. Anybody who has a 529 and a student with college loans, you're you can help give them that money if you'd like to, because they can now use that directly for their student loans. Wow, that's great.

Unknown Speaker 5:51
Another 529 that I know about is these prepaid plans. Uh huh. And the prepaid plans are pretty cool, although only six seats provide them at this point, unfortunately. But those are the six states or I should tell you, Virginia, Maryland, Massachusetts, Mississippi, Florida, and Washington, oh, if you're in any of these states, you can actually take advantage of locking in today's tuition rate, these states guarantee their pre paid pre paid plan. Again, you're locked in those are really great because tuition, tuition rates are always on the rise. The unfortunate part about that is that you have no say over how your money's being invested. The state, you know, takes that over. But again, it's you know, no muss, no fuss, you just you know, you lock in your rate and you send them your money and call it a day.

Unknown Speaker 6:39
Yeah, that sounds like a great idea. You're right, though, it's certainly limiting to just those the states that would do that, or some other plans are education savings accounts, or a Coverdale savings account that you can put in $2,000 per child per year. The problem with that is, it's not going to be a lot of money if you start too late. So just as an example, you're going to want to make sure to start as soon as you can for them over 15 years at 9%. That's only going to come out to $58,000, which which is fine, but you need all 15 of those years. So these education savings accounts, they're going to grow tax free as well. But they need to be used by age 30. There is a

specific designated beneficiary. And it also pays for tuition, room and board books, supplies and equipment you need. It will pay for public and religious schools, elementary, middle school, high school, so very much like the 529 it will pay for this other schools if you'd like to use it for that. And if for some reason you actually have extra money, you're welcome to roll that extra money into a 529 as well. So it's not something you're going to be penalized for if you roll it in. But if you don't roll it over there is going to be an income tax consequence and a 10% penalty on the earnings on that savings account. Right.

Unknown Speaker 7:53
So now another option when you're doing your state planning is the uniform gift to minors. It's the UGMA you GMA, or the uniform transfer to minors, that's utma. So these are custodial accounts, they're held in that until that minor which is 18 to 21, depending on the state stocks, bonds, mutual funds, I mean, anything that you want to put that money into is fine, that remains the property of that minor. So it's actually taxed at the child's rate, which is amazing, because no child's not going to have any income except for this. And so, you know, that's, that's definitely a really good mechanism utilizing estate planning.

Unknown Speaker 8:32
So why wouldn't people use this more often? Because it sounds better actually, you know,

Unknown Speaker 8:36
trust, I think is just so scary for some people. You know, I mean, it really is a trust, and it's a state planning mechanism, as I said, and you know, you're gonna have to go through a lawyer and just kind of, you know, try to figure out what the best situation for you tax wise is. And you know, this if this is it, then this is definitely a you know, good way to do it.

Unknown Speaker 8:56
Is this one of those, though, that wants the money is out that the kids can use it for anything, or they only use it for education?

Unknown Speaker 9:03
Yes, they okay for anything. So that would be you know, the downfall of you've got to you've got to spend on your hands or potential spender, you know, you can't control that. So if they want to buy a, you know, shiny red car, you really can't, you know, the money again, the money's in their name. So, you know, there's there's benefits. And then there's also, you know, some pros and cons here. Absolutely.

Unknown Speaker 9:21
So we have savings bonds, ie savings bonds, that the kids grandparents have given us terrific because at 20 years, the amount of money that

they've paid for it has doubled. So let's say the face value is $50. That means that they paid $25 for these and then the again, it's double whatever the value is, the problem with them that I am personally finding is that there's a 20 year maturity. So they were the kids were gifted these IE bonds when they were about 10 years old, which puts them at 30 years before the bonds are matured. And they're both out of college already. So these bonds though, have to be used towards tuition. And so now I don't know what the implication is if we can roll this into some other vehicle for my, for my grandkids that will have one day, but I'm not sure it off to do more research into that. But they're, they're risky in that way that you need to make sure you're buying them almost the day the kids born because otherwise you only have a 20 year window, they're not good at post secondary or their own, excuse me, they're only good at post secondary school. So they're not good at a trade school. So if your child doesn't want to go to college, they're not gonna be able to use these bond, the savings bonds. And they're only good for books and room and board. Now, the benefit is, is it can be put into a 529 plan. But again, it's going to be for some other person down the road. So whether that's for a grandchild or a cousin or someone else that they want to use to fund those, they're they're not able to just take that cash out without penalty is the problem with them.

Unknown Speaker 10:47
So if you've got one of these IE savings bonds, let's just say your child has, you know, $500 bond, but they're not working. And it's it's in the child's name. I mean, there's they're not going to income tax on that

Unknown Speaker 11:01
they're going to owe the federal income tax on it. Again, it's going to be I think, is a great idea. But I'm not sure that it's the best idea, it was probably the best thing they could do at that time, really when it comes to

Unknown Speaker 11:13
Oh, absolutely. Because I've got a couple images I got to look at. And

Unknown Speaker 11:18
I finally pulled mine out because of this and listed the dates, they're all going to come mature and who's going to get what, when but their dates are all spread out also. So even though some of the dates might be in the next year or so that's over like a seven year window. It's it's a long time, it's a long time,

Unknown Speaker 11:33
what are their options? That's definitely a not so great option. And again, I don't think there's popular now as they used to be 20 years ago, I mean, like I said, I know I've got a couple and that's because I pushed 20 years ago for everybody to give them savings bonds for

their baptisms, as a matter of fact, yeah, so that's definitely in the not so great investment section. Well, another, you know that another potential is a Roth IRA. So, you know, we all know a Roth IRA is typically for retirement, but you can actually use it to save for college. And I particularly like this option, if you've got one child. And I say that because that you know, as much as we want our children to get an education, they may not, you know, decide that college is for them. And so if you've got your money in a 529, and that and you've only got the one child and they decide, they don't want to use it for college, or they don't want to go to college, now you're going to have to withdraw this, you know, for non educational purposes and get penalized and tax and if you have it in a 520, if you I'm sorry, if you have an IRA, then you can use it for your own retirement, if your child decides that they don't want to use it for school, or let's just say your child's athletically inclined and you know, they get a scholarship or something, you know, you may not need that money again, now you've got that money in your retirement account, you know, it's a lower risk way of saving for them, and not knowing whether they're really going to go to college, if you've only got the one. So now the distributions are actually of the contribution is actually tax free long as your Roth has been open for over five years. So you want to definitely start this, you know, before they're out of grammar school, and then the earnings if they're withdrawn between 59 and a half, they can be used for educational expenses, as I said, you might pay taxes, but you're not going to pay, you're not going to owe a penalty for an early distribution. So this is a really good way of using a Roth IRA.

Unknown Speaker 13:26
So income tax is probably right, when you're gonna owe taxes on it. Okay, I worry about using this option, because your retirement account is meant to be your retirement account. I feel like maybe a grandparent or someone else that is using their IRA, they might have a better handle on how much money they're going to need for their retirement ultimately, maybe that's a better choice for it.

Unknown Speaker 13:47
Yeah, I mean, there's that I know that if you're, if you're saving in, let's just say a 401k at work. Mm hmm. He's the Roth IRA. You know, you do that mental accounting, and you use, you know, you're no, you know, you're saving in your Roth IRA for school. That's a definite that's a good way. If you're just contributing to your Roth IRA, then absolutely, then, you know, then you're not saving in any other vehicle for your retirement, then then it's not such a great option. Absolutely. What

Unknown Speaker 14:11
happens to the money that comes out? Does that

Unknown Speaker 14:15
affect any anything else it might affect our financial aid? Again,

there's ways around this, you know, you can use it all in their senior year, so that it doesn't affect the following year, obviously, because there won't be one. There's there's ways around it. But there are that yes, there are definitely risks, like like you just said, you know,

Unknown Speaker 14:35
bottom line is you need to talk to a tax professional. Any of these choices right there. That's the whole point. There's all these options, but they have varied benefits and liabilities to it. So you want to talk to somebody

Unknown Speaker 14:47
about your situation. Exactly. Exactly. All about your personal situation. Absolutely.

Unknown Speaker 14:52
So we had a 401k years ago and we needed to take a loan out to purchase our home. How do you take a loan out so what you do is 401k you just approach your HR department, and you can actually borrow the money that you've put into your 401k account, you are responsible for repaying that money though, you can do the same thing for your kids education, you can borrow up to 50% of the accounts value, or $50,000, whichever is greater. And then you need to set up an approximate five year loan repayment with minimal, you're gonna pay minimal interest on it. But again, that sounds super. However, you are taking money out of your retirement savings to pay for schooling. And yes, you're going to be repaying it, but you're missing the interest on those on those payments that you're putting back into it. And so really, you're underfunding your own retirement, you need to try and get loans if you can, in that case, well, the last maybe not so great. Option is a home equity loan. Yeah,

Unknown Speaker 15:53
definitely caution against this one, I'm almost hesitant to even talk about it, it's an option. But obviously, the risk is that you risk losing your home, you know, you can get a loan for your child's education, but you can't get a loan for your retirement right. And to use your whole entire retirement for your child's education and leave yourself penniless is just not it's really not the best way to go. And and I talked about that because home equity loan I would agree is this, I would say is the same exact pitfall you risk losing your home, just to fund your child's education, there's a lot of points that we can go over on the home equity loan, but the bottom line is I caution against using your house as collateral. Anything because you risk being homeless, but you know, your kid's gonna have this great education paid for So hey, you know, they can get your new home, maybe

Unknown Speaker 16:46
I would definitely risk my retirement on that knot. You know, it occurred to me that when I was talking about the 529, I forgot to

mention what happens if your kid gets a scholarship, or they end up going to some Military Academy where their school is going to be paid for them like West Point. As an example, I have a friend who's just got married and the wife in that situation, their parents set up a 529. For her, she got a scholarship to school for her athletic ability. And so now they have this 529 that they can't use or don't need to use for education, and they're just going to roll that over instead of cashing it out. They're going to roll it over and apply it to their own children, they're going to designate a new beneficiary and that's the same thing so you don't have to worry about what if my kid gets a scholarship that's great. Now you can help start funding someone else's whether that's your grandkids or some other beneficiary for it, so it's not a wasted money for you.

Unknown Speaker 17:33
Yeah, niece, nephew, sibling parent. If you want to go back to school that money can really be used for just about anybody in your immediate family which is great.

Unknown Speaker 17:43
Yeah, got anything else?

Unknown Speaker 17:45
No, I think we about covered it all.

Unknown Speaker 17:47
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