

# Saving for College: A Brief Guide for Parents

## Key Questions to Get Started on Providing For Your Kids' Education

### HOW MUCH DOES A COLLEGE EDUCATION COST TODAY?

According to the College Board's Trends in College Education, the expert in this field, average total tuition, fees, room and board charges in 2019-20 were \$21,950. For public four-year colleges, average in-state tuition and fees were \$10,440.

Looking into the future, a new parent whose child will be going to college in 18 years may expect to pay \$156,335 in tuition, fees and room and board at an in-state four-year public school. You would have to save \$339 per month, with a 6% rate of return, to meet that savings goal. At a projected \$355,191 for four years at a private school, you would have to save \$769 per month.

### What four years of college could cost<sup>\*†</sup>

Your child's current age	Public school (In-State)	Private school
<b>Newborn</b>	\$156,335	\$355,191
<b>3</b>	\$143,069	\$325,050
<b>6</b>	\$130,929	\$297,467
<b>9</b>	\$119,818	\$272,225
<b>12</b>	\$109,651	\$249,124
<b>15</b>	\$100,346	\$227,984
<b>17</b>	\$94,586	\$214,897

<sup>\*</sup>Source: Saving for College, LLC. Family College Savings Road Map Calculator and the College Board average fixed costs of tuition, fees, room and board for the 2019-2020 academic year.

<sup>†</sup>Estimates assume a 3% annual increase in costs and 6% rate of return.

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## Saving for College: A Brief Guide for Parents *continued*

### HOW IS NEED-BASED FINANCIAL AID DETERMINED?

Colleges award need-based grants entirely by their assessment of how much the student's family is able to pay. While there's no hard-and-fast cutoff for need-based aid, at private colleges, you're unlikely to qualify for aid once your parents' income surpasses about \$350,000. One bit of relief: Having multiple students in college at the same time is a big factor in the formula.

Filing for the Free Application for Federal Student Aid (FAFSA) should be your first step toward receiving federal financial aid. If you don't apply, you won't have access to any type of loans, grants or work-study programs. Some schools may require you to fill out the similar CSS (College Scholarship Service) Profile.

### ARE THERE TAX CREDITS I CAN GET FOR COLLEGE TUITION?

Yes, to take one example, the American Opportunity Tax Credit allows a credit of 100% for the first \$2000 of tuition costs, plus an additional 25% of the second \$2000, for a maximum annual credit of \$2500 per student. You're eligible for this credit if your adjusted gross income is \$80,000 or less (\$160,000 or less for joint filers). Check out IRS Publication 970 for more opportunities for education tax savings, although keep in mind, you can only use one of these tax credits at a time; you can't double-dip.

### WILL MY SAVINGS HURT MY CHILD'S CHANCE FOR FINANCIAL AID?

It depends on the type of savings. Your retirement assets such as IRAs or 401(k)s, your insurance policies and annuities, and your primary residence won't count against you when you file for the FAFSA. Those schools that use the CSS Profile may require you to dive deeper into your financials, and may also require you to report your primary home as an asset.

### WHAT OTHER TIPS DO YOU HAVE FOR BUILDING UP COLLEGE SAVINGS?

- Look at temporary or seasonal expenses that your child might grow out of as he or she gets older, like

child care, uniforms or equipment for sports teams. When these expenses stop, add those payments to your college savings.

- Commit part of any future salary increases to your college fund.
- Encourage those who might give gifts to your child to instead make a check out to your college savings fund.
- There are a handful of vehicles to help you save for education, the best known being the 529 college savings plan. A 529 plan grows tax-deferred and comes out tax free if used towards a qualified education expense. Your state may also offer a state tax benefit for investing in their in-state plan.
- Finally, consider having a conversation with your child as early as possible so they understand the financial costs of going to college and can get started on choosing a college that fits their career aspirations, personality and interests. Getting your child involved right away allows them to have some skin in the game.

Planning for college is a long-term endeavor that becomes much easier with careful planning. Talk to your Baird Financial Advisor about any questions you have regarding college savings strategies.

*Investors should consider the investment objectives, risks, charges and expenses associated with a 529 Plan before investing. This and other information is available in a Plan's official statement. The official statement should be read carefully before investing.*

*Depending on your state of residence, there may be an in-state plan that provides tax and other benefits such as financial aid, scholarships and creditor protection that are not available through an out-of-state plan. Before investing in any state's 529 plan, you should consult your tax advisor.*

Please reach out if you or anyone you know would benefit from discussing this topic further.