



Saving for College and Retirement

Tips on trying to meet two great financial goals at once.

Provided by Chris Eller

Saving for retirement is a must. Saving for college is certainly a priority. How do you do both at once?

Saving for retirement should always come first. After all, retirees cannot apply for financial aid; college students can. That said, there are ways to try and accomplish both objectives within the big picture of your financial strategy.

As a first step, whittle down household debt. True, some debts are not easily reduced, and some are worth assuming, but many are byproducts of our wants rather than our needs. NerdWallet, a personal finance website, notes that the average U.S. household now carries *credit card debt* of more than \$15,000. Less revolving consumer debt means more money available to potentially direct toward a retirement fund and a college fund.¹

See if your children have a chance to qualify for need-based financial aid. Impossible, you say? You may be surprised. You can have one million dollars in your IRA or your workplace retirement plan and not impact your child's potential for need-based financial aid one iota. That is because those retirement accounts are not considered parental assets in the calculation of the Expected Family Contribution (EFC) that factors into determining a student's need.²

That "need" is determined through a basic equation: the cost to attend the school minus the EFC equals the financial need of the student. So, in theory, the lower you can keep your EFC, the more need-based financial assistance your student deserves.²

The Free Application for Federal Student Aid (FAFSA) and College Board CSS/Financial Aid PROFILE use slightly different calculation methods to determine the EFC. Both student and parental assets factor into the calculation. What usually counts most is the income of the parent(s), minus some taxes, tax deductions, and allowances. Capital gains from investment accounts can qualify as "parent income," and so can Roth and traditional IRA distributions.^{2,3}

Money held *inside* a qualified retirement plan, though, is not included in need analysis formulas. Life insurance cash values rarely count. Most Coverdell ESAs and UGMA and UTMA accounts represent assets owned by the child, and child assets receive 20% weighting in EFC calculations (parental income receives up to 47% weighting). Parental assets, as opposed to parental income, are weighted at no more than 5.64% yearly. Cash and brokerage accounts are considered parental assets; so are student-owned 529 plans. Even real estate investments can be defined as parental assets.^{3,4}

The CSS PROFILE form does inquire about retirement account values and life insurance cash values, but

they are not factored into the EFC calculation. They may be considered if a college financial aid officer needs to make an assessment of the overall financial health of a household pursuant to a financial aid decision.²

What if your kids have little or no chance to receive financial aid? Then scholarships and grants represent the primary routes to easing the tuition burden. So save for retirement as well as you can and save for college in a way that promotes the best after-tax return on your investment.

Feel free to max out your workplace retirement plan contribution (and get the match from your employer). If you do so, the impact on your child's eligibility for college aid would be negligible. If you have a Roth IRA or permanent life insurance policy, think about the ways they can be used in college planning as well as retirement and estate planning. You may be able to tap a life insurance policy's cash value to pay some college costs, and distributions from a Roth IRA occurring before age 59½ are exempt from the standard 10% early withdrawal penalty if they are used for qualified educational expenses.⁵

Even if your household is high-income, look at the American Opportunity Tax Credit. The AOTC is a federal tax credit of up to \$2,500 per year that can be applied toward qualified higher education expenses. It is better than a federal tax deduction, as it lowers your federal income tax dollar-for-dollar. If you are married and you and your spouse file jointly, you are eligible to claim the AOTC if your modified adjusted gross incomes total \$180,000 or less. If you are a single filer, you are eligible if your modified adjusted gross income is \$90,000 or less. Phase-out ranges do kick in at \$160,000 for joint filers and \$80,000 for single filers.⁶

Chris may be reached at 815-539-3437 or chris.eller@investmentcenters.com.
www.chris-eller.com

Citations.

- 1 - dailyfinance.com/2016/03/23/8-financial-decisions-youll-regret-forever/ [3/23/16]
- 2 - forbes.com/sites/troyonink/2016/02/29/balancing-act-strategically-saving-for-college-and-retirement/ [2/29/16]
- 3 - money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/articles/2016-03-18/strategies-to-maximize-college-savings-and-financial-aid [3/18/16]
- 4 - finaid.org/savings/accountownership.phtml [4/6/16]
- 5 - irs.gov/Retirement-Plans/Plan-Participant,-Employee/Retirement-Topics-Tax-on-Early-Distributions [2/22/16]
- 6 - irs.gov/Individuals/AOTC [12/8/15]

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Investment Centers of America, Inc. (ICA) member FINRA, SIPC and a Registered Investment Advisor is not affiliated with First State Bank or Chris Eller First State Investment Services. Securities, advisory services and insurance products offered through ICA and affiliated agencies are ***not insured by the FDIC or any other Federal Government agency *not a deposit or other obligation of, or guaranteed by any bank or their affiliates *subject to risks including the possible loss of principal amount invested.** ICA does not provide tax or legal advice.