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SECURE THEIR FUTURE:

A PARENT'S GUIDE TO SAVING FOR THEIR KIDS COLLEGE.

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INTRODUCTION

Hello, I'm your coach, Korey Knepper

I started my journey in the finance industry with the hope to help everyday Americans find financial freedom. The journey started after four years in the US Navy. After graduating with a B.S. in Financial Services, I started at Merrill Lynch. I moved to the independent side in 2021, and began working with SDSmith Financial in 2022.

I'm happily married to my wonderful wife, Christie, and we have one delightful child, named Adam who brings so much joy to our lives. In my free time, I enjoy playing and watching sports, and volunteering at my church.

I truly believe that financial freedom is achievable for anyone who has the time, discipline, and coaching to get there.

Korey Knepper

INTRODUCTION

This is Why You're Here

You aren't here because you clicked an ad, you are here because you love your child or children. Most likely you had student loans at some point (or still do), and you want to find a way to keep your kid(s) from having the same fate. This eBook is a good first step to keeping your child from similar issues. In this eBook you can expect to answer these questions:

- What is the current state of education cost and is it even worth it?
- If my child must take out loans, how much is the max they should take out?
- What investment types can we use to help our child with college?
- How do we fit education savings contributions into our budget?
- How much do we need to save?

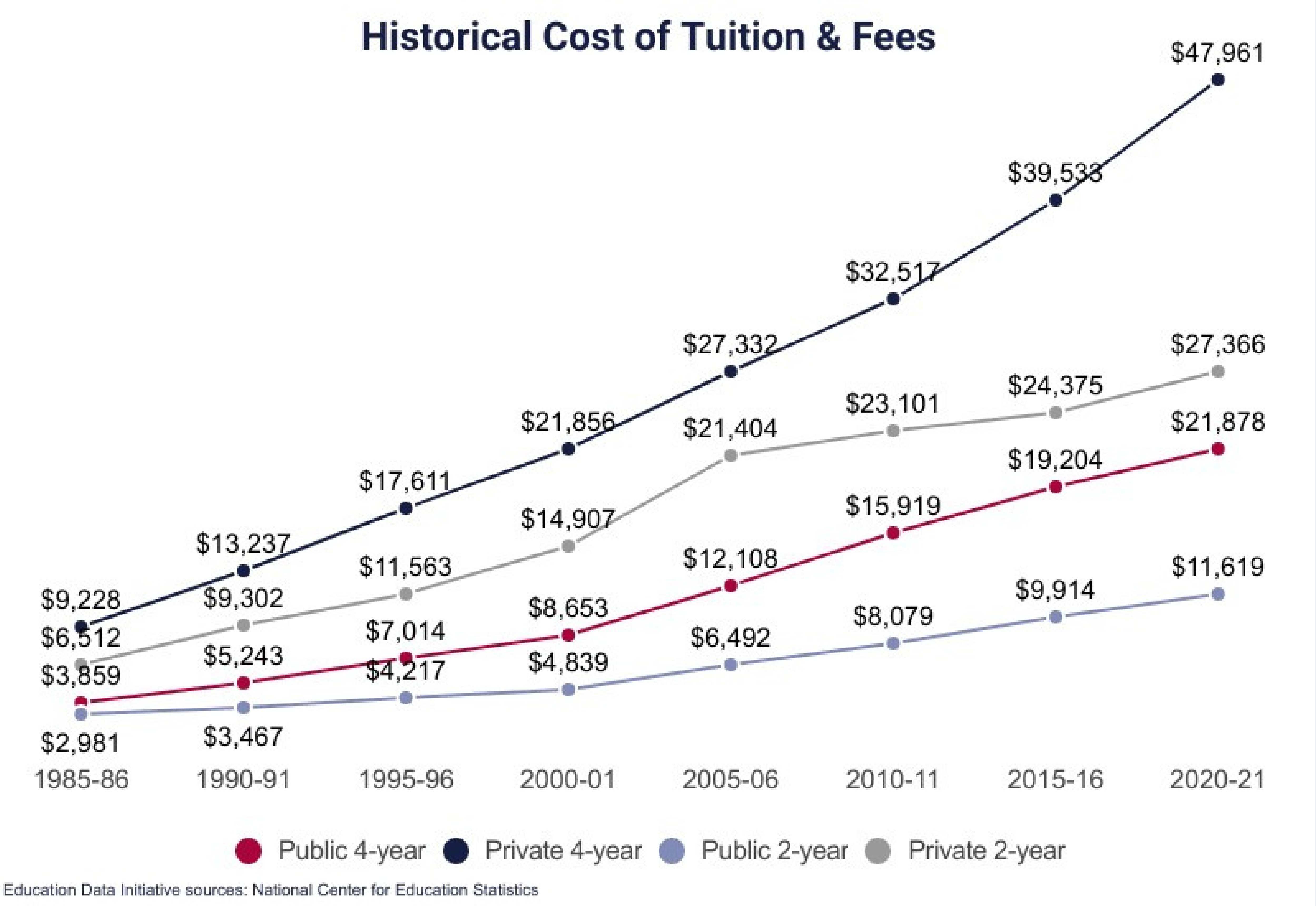
There is no one-size-fits-all when it comes to education planning. Different incomes, various locations, and different kids will all have their own specific challenges. My hope is that with the completion of this eBook, you will have an idea of what path you would like to go down to secure their future.

INFLATION AND TUITION

College Tuition Continues to Climb

College education is as expensive as it has ever been. Many people in their 30s and 40s are still struggling to pay down their student loans. This event has left a lasting impact on the Millennial generation, and a lot of Millennials are wanting to make sure their kids do not go through the same problems.

How much you should save for college is up for debate. How much will college cost in 10 years, or 15 years? The tuition inflation has slowed down and has been below 5% since 2012 according to the U.S. Inflation Calculator. It seems as if the expansion of online capabilities has slowed down the constant rise of tuition costs, which helps.



INFLATION AND TUITION

“Our goal is to give you the tools to make sure your child is not a part of that statistic.”

Student Loan Crisis

On average, 4 years of tuition at an in state public university will cost around $104,108 according to educationdata.org. Some of this tuition cost can be paid by scholarships, grants, and financial aid, but a sizable part of it will be either out of pocket, or via student loans.

Student loans have become a very polarizing topic over the past 10 years. There are many reasons to point your finger at, however, none of those reasons will pay off your loans, or keep your kids from needing to take them out. At the end of 2023 the United States has about $1.727 trillion in student loan debt. Our goal is to give you the tools to make sure your child is not a part of that statistic.

Some other stats around the current Student Loan crisis, there are 43.2 million outstanding loans, and the average public university student borrows $32,637 to obtain a bachelor’s degree. Not everyone can get through college without taking out loans, however, there are some rules you should use when looking at schools.

How Much Debt Can You Afford?

As we previously stated, a public university in-state for four years will cost you about $100,000. You can cut some of that cost by going to a public two-year university first, which will cost you around $32,180 including room and board. Just going to a two-year before the four-year, can save on average $17,820.

Other areas to look towards are grants, and scholarships. These are difficult to prepare for, and all schools are different in what they are willing to do. The other area of cost cutting is typically financial aid, or FAFSA. When applying for these, it is not a bad idea to sit down with someone that can help, the earlier the better.

Then we come to student loans. How much is affordable? Well, that depends on you, and your degree field. What field your degree is in will impact your earning capability once you receive it. **Take the degree field and find the average salary for the first three years. That is a good number for how much you can afford to take in student loans.**

IS COLLEGE STILL WORTH IT?

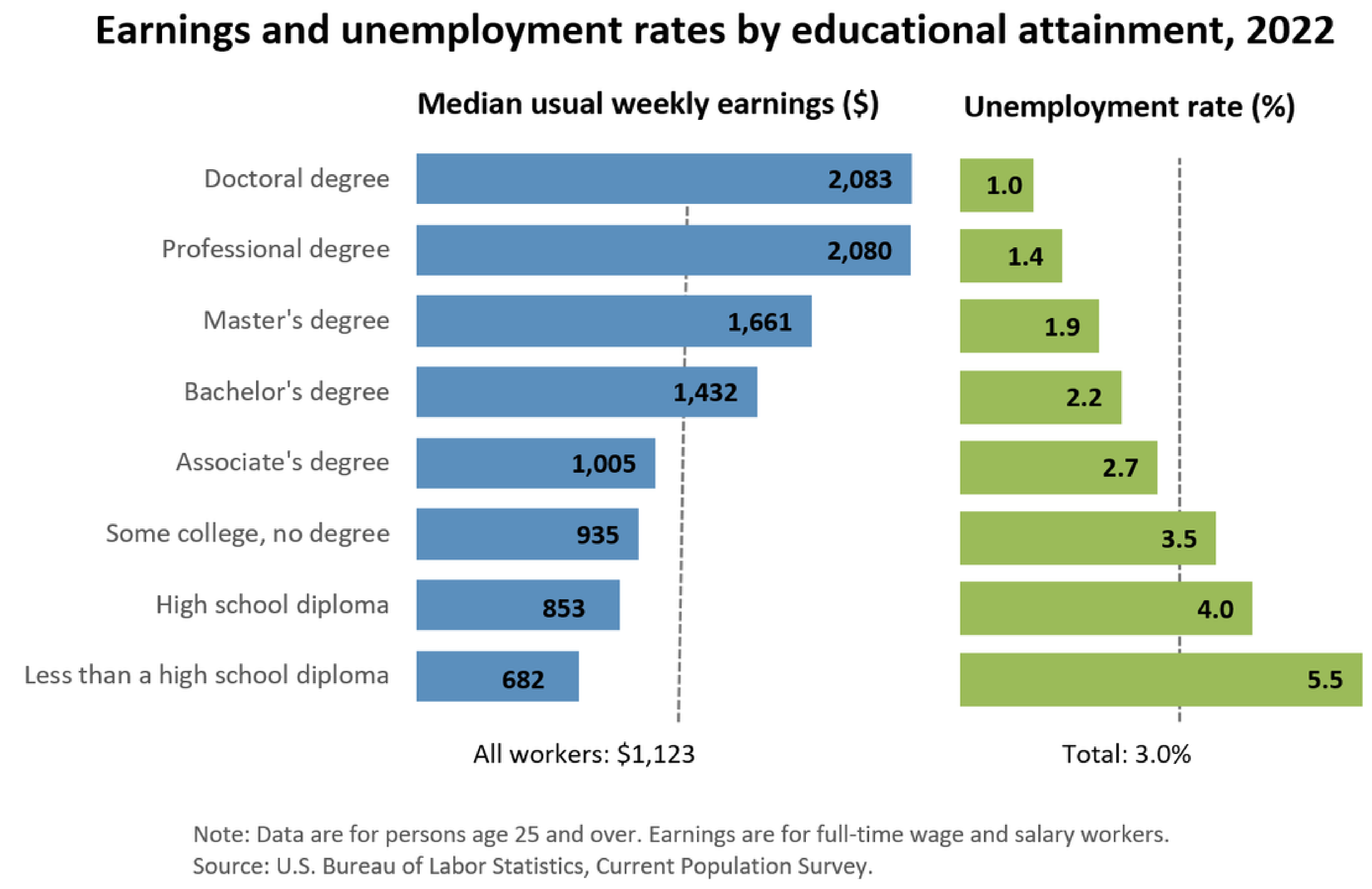
Is College Still Worth the Price?

Some Colleges Are

There are some colleges out there that are probably not worth their price. These are typically private four-year universities. Private does not mean better. The important metrics are acceptance rate and graduation rate. Schools with an excessive cost of tuition, but a low graduation rate are ones to avoid. A high acceptance rate with high tuition cost is another red flag. It’s not an end all be all, but high tuition plus taking anyone who will pay, shows a care of revenue over student quality. Every university is different and have different areas of expertise.

What is the Plan?

At the end of the day, the most important piece is that your student and the university have an aligned plan. Knowing how long the program takes, and when different milestones are is a particularly important piece to having a successful college experience. As we can see below, a successful college experience not only sees a rise in income, but also a rise in job security. At the end of the day, college is still worth the price of attendance for most people. A good plan for payment can also make that price more palatable.



The 529 Plan

Maximize Your Education Savings

Can I Use Retirement Funds?

We see reactionary moves to pay for college all the time. Using retirement accounts, 401K loans, or refinancing your home are some ways people try to help their kids pay for college. Outside of using a Roth IRA exception, we do not recommend using these methods. These can be quick fixes but can also result in catastrophic tax events Doing the work early is key. Before saving for college, make sure you have a couple of things taken care of. These include no high interest debt (credit cards, personal loans etc..), and having a fully funded emergency fund. These two are the basics to take care of before we move on to investing for college, or retirement.

You Don't Need to Pause Retirement!

There are other tax advantaged accounts out there for college saving. The most popular one is the 529 Plan. A 529 Plan acts similarly to a Roth account type. The contributions are made post-tax, and qualified withdrawals are made tax-free. Other areas of note for the 529 are:

- **Anyone Can Contribute**

This is a massive benefit for the 529 Plan. Stop me if you've heard this, "It takes a village to raise a child." Well, the 529 Plan takes that saying literally. While the parent can be the participant, anyone can contribute. This is a wonderful way for people to give birthday and holiday gifts. Whether it is an out-of-town relative, or your kid already has enough toys, this an effortless way to help play a part in securing their financial future.

- **Change Beneficiary at Anytime**

Another piece of 529 is the ability to change the beneficiary. Let's say your son or daughter has done well enough in academics or athletics to receive a scholarship, or like me, they want to go the military route, or opt out of going to college. The 529 is now "over-funded". That is no problem, as the beneficiary can change to another child, or grandchild. If you want the current beneficiary to still benefit, there is another option...

- **Roll into a Roth IRA**

This is a very new benefit of the 529 Plan, going into effect with the passing of the Secure Act 2.0 in December of 2022. If the account is open for 15 years, up to $35,000 can be rolled into a Roth IRA for the beneficiary. This must happen incrementally, with the max single year rollover being the same as the max IRA contribution.

THE 529 PLAN

529 Contribution Strategies

Add It To The Budget

This one is the easiest one to explain. Just add a monthly contribution to your budget and pay it like a bill. If you start this when your child is 3 years old (15 years from college) at $100 a month with 10% interest, you are looking at around $41,940 at age 18.

Child Tax Credit

This is a piece that could see a change soon due too future legislation. As currently constructed, the child tax credit will be worth $2,000 per qualifying child, with $1,700 being available to refund to you. If we use this credit of $2000 a year, at the same 15 years and 10% as the previous scenario, we are looking at an estimate of $59,415. If we use both strategies, (2900 a year, 1200 for monthly contributions, and 1700 for tax credit) we would have a future estimated value of $101,354.

Establish a Brokerage Account for Income

This is the strategy that I like the most, because it does not affect your current budget. The idea utilized a couple of different finance rules in order to work. These rules are the rule of 4%, and the emergency fund. The first step is establishing an emergency fund, which is a good piece of a financial plan. This is typically 6 months of expenses. After we establish that, we break the emergency fund up into big and small emergency funds. A small emergency fund is what you keep in your savings account. This is for things like, meeting an insurance deductible, fixing/replacing broken home appliances. The big emergency fund is there in case of job loss, or serious medical problems that affect your paycheck. For a household with $150,000 in income, a $75,000 emergency fund isn't out of the question. If we establish $10,000 is for "small emergencies" and the other $65,000 is for "big emergencies" then we can move on the next step.

Opening a brokerage account as a place to store the big emergency fund is a fast way to create income to contribute to a 529 Plan. If we put our big emergency account of $65,000 into the brokerage account, and use the rule of 4%, we can contribute an additional $2,600 to the 529 Plan in year one. The rule of 4% is typically confined to retirement plans, with the idea that you invest in something that averages 7%, you take 4% in income, and the remaining 3% helps the account keep pace with inflation.

THE 529 PLAN

Brokerage Strategy Explained

How do Brokerage Accounts Work?

The Brokerage account is probably the most flexible investment account out there. Unlike an IRA, there are no early penalties for withdrawals, and the ownership capabilities are much different. Where as an IRA can only be owned by one individual, a brokerage account can be owned by multiple. It can also be owned by an entity, like a trust or business. Let's take a look at 529 funding with a brokerage account. In the table below, we used a brokerage starting value of $65,000. We withdraw 4% a year and use that to contribute to a 529 Plan over the next 15 years. The 529 Plan is being invested more aggressively, averaging 10%, while the brokerage averages 7%. Here are the results:

YEAR	Brokerage Value	4% Withdraw	529 Value
0	$65,000	$2,600	$2,600
5	$75,353	$3,014	$17,632
10	$87,355	$3,494	$34,114
15	$101,268	$4,051	$53,222

As we can see, the total 529 value $53,222 after the 15 years. This was done without adjusting a budget, or using any other strategy. When we add the $100 a month strategy, we end up with $154,206.72 in the 529 Plan before college.

Here is a quick rundown on how brokerage accounts are taxed

- Dividends are taxed as ordinary income.
- Capital gains are split into long and short, long being anything held over a year, and short anything under. Short-term capital gains are taxed as ordinary income, and long-term capital gains are taxed at 15% if your taxable income is between $47,025 and $518,900. It is taxed at 0% if below and 20% if above.
- Capital losses are also split into long and short. A long-term loss can be taken as a tax deduction, up to 3000 a year, with the ability to carry that deduction forward if the loss is greater than 3000. A short-term capital loss can offset short-term gains made in the same year, or have the same tax deduction of 3,000.

EDUCATION PLAN ALTERNATIVES

Alternative Ways to Save For Your Children.

Brokerage as an alternative

While we just discussed using a brokerage account to help fund the 529 plan, we can also use the brokerage to invest and pay for college. A brokerage account can help your child not have to take out student loans, but we prefer this as a back-up plan, as opposed to the primary plan.

UTMA/UGMA

The UTMA (Uniform Transfer to Minors Act), and the UGMA (Uniform Gift to Minors Act) are both comparable to the 529 Plan. The UTMA and UGMA have little differences between each other. They are both investment accounts with minors as the beneficiary of those investments, similar to the 529 Plan. The biggest difference is the UTMA/UGMA has no tax benefit and is not tied to education expenses.

An UTMA/UGMA is used to invest the money you would like to put away for your child when they become an adult. Different states have different regulations, but usually the child gains access to the funds at age 18 or 21. These accounts are not tax advantaged and can incur taxes while the child is a minor.

Life Insurance

And we have come to life insurance. In my opinion, life insurance is one of the most misused products in the finance industry. Having a life insurance policy for your child is not a bad idea, in fact, it is something that I recommend. However, in almost all areas, using a life insurance policy with the primary goal being an investment is a bad idea. This applies to all cash value life insurance policies. Whole Life, Universal Life, both index and universal. While you can use these policies cash value to pay for college, there are tax implications of doing that. Instead, what most life insurance strategist will tell you is to take a loan against the cash value. Since loans are not taxable, and the cash value pays for the loan, this is advertised as “Tax-Free Income”. It is not tax-free income, it is a loan. Also, these policies are expensive, and very restraining as far as investments are concerned. Banking on one of these to pay for college is not something we have recommended since the Secure Act 2.0 loosened up the usage of 529 funds. In general, insurance products make for bad investments, and investments make for bad insurance products.

CONCLUSION AND DISCLOSURES

The First Step to Secure Their Future!

Having the knowledge of how to, and where to save for your kids' education is a great first step to achieving your goal of paying for your kids college. However, as Antoine de Saint-Exupéry once said "a goal without a plan is just a wish." These strategies take time and rely on proper execution. Getting a plan in place is imperative, but so is understanding how that plan works. That is what we do at SDSmith Financial. We want you to understand how and why your plan works. We also provide free 529 Plans for our clients.

As a parent of a young child myself, I know how it feels to want to provide everything for your child. Keeping them from the student loan trap may not be everything, but it does provide them with a greater chance of being successful in what they choose to do. If you would like to set up a meeting with me to discuss your situation and how you can save for your kid or kids education, follow this link to set up a first step consultation. Thank you for reading, I hope this book helps you and your family in the effort to secure their future.

Korey Knepper

CITATIONS AND DISCLOSURES

Citations and Disclosures

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