



On Course | July/August, 2023 | Volume 23, #6

Welcome. We at Compass Planning continue to appreciate your support. Thank you.

With the new student loan forgiveness program under the [Biden plan](#), it's crucial to understand how to save for college and manage student loans. In this newsletter we're providing insights on starting a college savings plan, tracking expenses, choosing a target amount to save, and selecting the right account, such as a 529 plan. Additionally, we offer guidance on determining how much to spend on college based on current expenses and future goals. Lastly, we touch on planning for loan payments and the benefits of early repayment.

If you missed our series on retirement, you can still access the issues. For Retirement, Part 1 - Retirement Savings, click [here](#). For Retirement, Part 2 - Social Security, click [here](#). For Retirement, Part 3 - The Retirement Paycheck, click [here](#).

If you would like assistance in planning for college, we are here to help you stay *On Course*!

Jennifer Lane, CFP



Get your kids involved as early as you can in college financial planning by including them in a monthly discussion about your money and theirs. This is a variation on the monthly money meeting we often talk about. You don't need to share your whole financial picture with them; in these college money meetings. You'll focus on their accounts and the accounts you own that are earmarked for their college costs.

Get more tips in Jennifer's book

Saving and Paying for College

SAVING FOR COLLEGE

How to begin

- The first step in college savings is just to start – it's never too early or

too late.

- A good expense tracking process can always help in meeting your financial goals, but knowing where your money goes is particularly helpful in college savings.
- Track kids, housing, and your expenses. As your child's expenses change, e.g., as day-care costs decrease, re-deploy those cost savings to the college savings accounts.
- Feeling as though you'll be short of your college goal? Review your kid's current expenses and your own discretionary expenses to re-prioritize where your money goes.

How much should you target to save

- College costs have continued to inflate at a high rate – possibly as much as you could expect to earn in an investment account.
- 529 college savings plans can help fight cost inflation by making your earnings tax-free. (More on 529 plans below.)
- Within your financial plan, be sure to balance both college savings and retirement needs. Don't over save for college and not save enough for retirement.
- Research current college expenses, e.g., tuition, room and board, books. The [Education Data Initiative](#) is a good place to start.
- Drop the future savings target into this [calculator](#) from Calculator.net

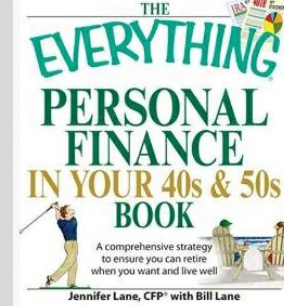
Adjusting over time

- College savings can seem daunting when the kids are little. Many people find they can't pay for daycare, save for college, and pay a mortgage all at the same time.
- If you cannot do all three at the same time, take a stepped approach.
- Once daycare ends, redirect some of that money into the college savings plan and – if you're not already maxing your work retirement plan – some into getting your 401(k) or 403(b) at work to the annual maximum. For **2023**, 401(k) limit increases to \$22,500 and IRA limit increases to \$6,500.
- Our clients have found they need to put between \$300 to \$800 a month into college savings.
- If you plan to have your child cover part of the college costs, focus on teaching them about budgeting and money as they enter their teen years. They will be better able to decide about how much they can afford, which will, in turn, affect where they choose to attend college.

Choosing an account

- The most used savings vehicle for college savings is a 529 plan, which each state sponsors through a financial services provider.
- When a parent is the 529 account manager, withdrawals for eligible expenses are tax-free. Other family members, e.g., grandparents, aunts, can also be the guardian of a 529 plan. In this case, withdrawals count as income on the financial aid application. For this reason, it usually makes sense to save "non-parent" 529 plan withdrawals for the last years of school.
- Check out [Saving for College](#), a great resource for finding the plans your state sponsors as well as the tax benefits and investment expenses.
- Compared to a regular investment where you rebalance and receive dividends that are taxable, the 529 plan is much more tax efficient.
- Withdrawals are **limited** to college expenses and an annual withdrawal of \$10,000 for private school expenses.
- **IMPORTANT NOTE:** Because of the withdrawal limitations, we advise our clients to keep no more than half to three quarters of the college

goal in the 529 account in case college costs are less than



Buy Now

Helpful Websites

[An Introduction to 529 Savings Plan from the SEC](#)

[Biden-Harris Administration's Student Debt Relief Plan](#)

[Calculator.net](#)

[Education Data Initiative](#)

[Public Service Loan Forgiveness Plan](#)

[Saving for College](#)

[Tax Benefits for Education from the IRS](#)

goal in the 529 account in case college costs are less than anticipated.

PAYING FOR COLLEGE

Deciding where to go

- Plan the college budget before you start the school visits. It's hard to redirect the family's enthusiasm away from a favorite school when the cost turns out to be out-of-reach.
- [Salary.com](#) is a useful resource to get an idea of what your child's paycheck may be after graduation.
- This gives you the basis for estimating what the loan repayments will be. From there, work together to build a new-grad budget.
- For example, if you say to your soon-to-be college student that you will contribute \$30,000 a year for school and the college costs \$40,000, the student's loan will be \$10,000 a year. Use a loan payment calculator like the one here <https://www.savingforcollege.com/calculators/loan-calculator> and a budget worksheet like this one <https://consumer.gov/content/make-budget-worksheet> to decide whether the school is a good financial fit.

529 plan withdrawal strategies

- If you have both a parental 529 and a guardian 529, we recommend using the parental 529 at the beginning. Then the guardian 529 can be used, which will avoid the need to apply for financial aid after reporting the income from the guardian 529.
- In addition, if the student for some reason leaves college and doesn't finish, you've used the parental 529 as much as you can.
- 529 plans can also be switched between family members. More on how that works [here](#) from The Balance.
- New rules allow other uses for excess 529 plan balances. You may be able to use up to \$10,000 towards a beneficiary's student loans and up to \$35,000 to fund a Roth IRA. Details on that [here](#) from the Journal of Accountancy.

Paying off the loans

- Loans payments generally start six months after the student graduates. So, plan in advance.
- There are four options for repaying Federal Loans. More info [here](#) from NerdWallet.
- If you have private loans, try to focus on getting them paid down as soon as possible – especially the ones with variable interest rates.
- Focusing on getting the student loans paid off as quickly as possible will open other opportunities such as buying a house or starting a family.
- We advise against the 30-year repayment plan.
- If you're eligible for a [public service loan forgiveness program](#) be sure to enroll in that right away.

***Important last note: always, always, always apply for financial aid. It's now easy to do with the [FAFSA](#).
And, you just never know . . .***

Below are links to Jennifer's frequent contributions to financial planning articles.

- Jennifer contributed to an article for **USA Today** on managing credit card debt. Click [here](#) to read ***Debt snowball vs. debt avalanche: The best way to pay off credit card debt.***
- NBC Boston turned to Jennifer for advice and tips on what to do if you win big in the lottery. Click [here](#) to watch or read the segment.
- Jennifer contributed to a WBUR Radio Boston segment, ***How to Look Before You Leap into the "Great Resignation."*** Click [here](#) to listen.
- NBC10 consumer investigative reporter Leslie Gaydos interviewed Jennifer for savings tips. For a great video, ***How to Save \$1,000 in 5 Months***, click [here](#). For the written article, click [here](#).
- Jennifer contributed to a timely article, ***How to seek forbearance on your mortgage***, for **The Boston Globe**. [Read article.](#)
- If you're interested in dividend funds, Jennifer contributed to **The New York Times** article, ***Dividend Funds Can Add Income, and Risk, to Your Portfolio.*** [Read article.](#)
- Jennifer contributed to a **BankRate** article, ***Should I combine my mortgage and student loans?*** [Read article.](#)
- Need help with your 401(k) during the pandemic? Jennifer contributed to a **Boston Globe** article, ***Five tips for managing a 401(k) during the pandemic's turbulence.*** [Read article.](#)
- Jennifer contributed to the **Bottom Line Inc** article ***Prepare your Finances for a Possible Recession.*** [Read article.](#)
- Jennifer contributed to **The Wall Street Journal** article ***If Saving During a Pandemic Is Hard, Here's How to Stay Motivated.*** [Read article.](#)
- The **New York Times** featured Jennifer in an article titled, ***Balanced Funds Don't Inspire Fear or Greed. That's Why They Are So Useful.*** [Read article.](#)
- With a contrarian view, Jennifer contributed to an article, ***People are enraged by the idea that you should have twice your salary saved by the time you're 35!*** published recently by **Business Insider**. [Read article.](#)
- Moving in together? Check this article from **Business Insider**, ***Five questions you and your partner should answer before taking the biggest step in your relationship.*** [Read article.](#)
- **Insider** asked Jennifer to contribute to an article on old fashioned ways to manage your money, ***Six money-saving tips your grandma used that are way more effective than any budgeting app.*** [Read article.](#)
- Jennifer contributed to an article on **Business Insider**, ***This is the best way to do your taxes online - according to experts.*** [Read article.](#)
- **CNN Money's** Money Moves featured Jennifer in an article on how to strike the right balance between retiring early and saving enough. [Read article.](#)
- Jennifer contributed to a **CNN Money** article ***When is the Right Time to See a Financial Advisor?*** [Read article.](#)

Compass Planning News

- Compass Planning continues to meet with clients as well as those interested in learning more about the firm via phone and web-based video conferencing. Email info@compassplanning.com to learn more.
- Compass Planning has become a supporter of [The Center for Financial Planning](#) at the sustainer level. The CFP Board created the center to achieve a more diverse and sustainable financial planning profession so that every American has access to competent and ethical financial planning advice.

Compass Planning Associates helps families, individuals, and small-business clients achieve financial security, knowledge, and control over their money. Our fee-only, client-centered approach provides education and guidance for achieving financial goals and dreams.

This newsletter and any linked references are for informational purposes only and are not to be construed as tax, legal, or investment advice. Compass Planning has gathered the information from sources it believes are reliable, but your individual situation can vary, and you should consult with your investment, accounting, and/or tax professional before taking any action.

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