Help Your Children Live Their College Dreams—Without Student Debt Nightmares

IF YOU'VE EXPERIENCED THE BURDEN OF STUDENT DEBT, YOU'RE IN GOOD COMPANY. There are more than 44 million Americans in the same boat, and student debt in the United States has swelled to $1.7 trillion dollars.[1]

How do you help your child avoid the burden of student debt? How do you do it while you pay the bills? Save for your retirement? Pay off your own student loans?

The most important thing to recognize is that there's no "one-size-fits-all" solution. Everyone has different expenses and priorities, and that's okay.

Saving for College vs. Saving for Retirement

Trying to save for your child's education at the expense of everything else may be unwise. First and foremost, work toward accumulating an emergency fund of at least a few months' living expenses, because it's always a good idea to be prepared for a rainy day. Then, consider your own retirement fund.

If you haven't been contributing to a retirement plan, start today. Contributing early and often allows for compound interest to work its "magic" most effectively. And if your company offers a 401(k) match program, make sure you're contributing at least enough to get the full company match. Otherwise you're throwing away "free money."

It may be tempting to put your child first and forego contributing to your retirement, but you can't borrow for retirement, and you need to look out for yourself, too. The most prudent approach is to save for both as best you can.

Saving for College vs. Paying off Your Student Loans

If you're still juggling your own student loans, first, take stock of what you owe. Organize your loans by lender, size, and interest rates. Can you consolidate your federal loans? Are you able to refinance your private student loans for a more favorable interest rate?

If you work in a field that may offer federal student-loan forgiveness, such as teaching or nursing, explore what you need to do to receive the benefits. Some private companies have introduced the benefit of matching whatever you contribute to your student debt per month in your 401(k), up to a certain limit. When you're searching for your next job, this may be something to look for.

If none of these options applies to you, one of the most effective ways to pay down your own student debt is to accelerate the payments, even if it's only a little bit. Or use a windfall, such as an annual bonus or a holiday gift, to chip away at the principal.

Once you have a handle on your own finances, however daunting that may be, you can take the first step toward saving for your child's education.

Key Points

- Most parents expect to share the cost of college with their children through student loans.
- Parents need to balance saving for their child's college education with paying the bills, saving for retirement, and often paying off their own student loans.
- To help children avoid student debt, there are a number of options parents can take, both when children are small and as college draws closer.

[1] Bloomberg, "Older Americans Are on the Front Line of the Student Debt Crisis," 6/17/21

Client Conversations

If Your Child Is a Preteen

If your child is still young, time is on your side. Many parents choose a traditional savings account. This is a legitimate way to put aside college funds, and contributing early and often can add up. However, interest rates are low, and growth can be slow.

Another option is a 529 college savings plan, which can allow for more growth potential than a savings account. These plans were specifically designed for college savings, but only 37% of parents use them.[2] They're typically invested more aggressively while the beneficiary is young and more conservatively as college draws closer.

The earlier you're able to start contributing to a 529 plan, the better. Even contributing a small amount on a consistent basis can make a huge difference. Those funds may grow over time thanks to compound interest and the power of the market.

Withdrawals from 529s are tax-free as long as they're used for qualified education expenses,[3] which include not only college tuition, but also supplies, room and board, equipment, or vocational or technical training, K-12 private school tuition,[4] apprentice programs and fees,[5] and student loan repayment.[6] The bottom line is: They're highly flexible, effective savings tools.

You will have to shop around for the best 529 plan for you because the tax advantages vary from plan to plan and state to state. You can research different plans online or work with a financial professional to find out which savings tools are best for you.

If Your Child Is a Teenager

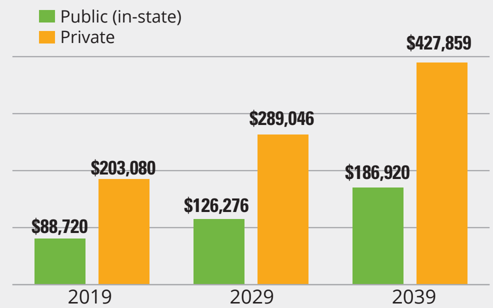
Even if you've missed out on saving during the early years, that's okay. There are still ways to try to make the cost of college a little bit more manageable for you and your child.

You can open a 529 plan even late in the game. When your child is older, most 529 plans will suggest conservative investments, but some plans do offer more aggressive options no matter how close to college age your child is. In either case, they're still tax-advantaged accounts and worth considering. **Investment returns are not guaranteed, and you could lose money by investing in a 529 plan.**

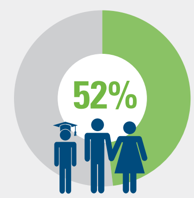
The year before your child heads off to college, you must complete a Free Application for Federal Student Aid, or FAFSA, in order to receive any potential federal aid. The FAFSA filing window opens each year in the fall, and it's best to apply as soon as possible. This means you'll probably be filling out student aid paperwork before your child has even decided on a school. Regardless, some pools of money are limited, and some funds are given on a first-come, first-served basis, so applying as soon as the filing window opens is beneficial.

Did You Know?

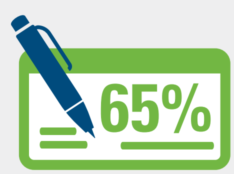
Average total costs and projected costs of 4-year college tuition, room, and board:*



52% of families have a plan to pay for all years of college:†



The average amount covered by financial aid in 2019-20:†



65% of families who borrowed say that borrowing was always part of their plan†

* Source: The College Board, "Trends in College Pricing," 2020. Based on average total charges for tuition, plus room and board for one year (2020-2021) amounting to $22,180 at a public, in-state, four-year college, and $50,770 at a private, four-year college. For illustrative purposes only. Assumes 4% annual increases. Future college expenses may be higher or lower than the amounts shown above.

† Sallie Mae, "How America Pays for College 2020," 2020

[2] Sallie Mae, "How America Pays for College 2020," 2020.

[3] Non-qualified withdrawals are taxable as ordinary income to the extent of earnings and may also be subject to a 10% federal income tax penalty. Such withdrawals may have state income tax implications.

[4] If using a 529 plan for K–12, it can only be used for tuition up to $10,000 per year.

[5] 529 plans can be used for apprenticeship programs registered and certified with the Secretary of Labor under the National Apprenticeship Act. West Virginia state code does not provide for the inclusion of Apprenticeship Programs as a Qualified Higher Education Expense. This means under current law, earnings associated with distributions for these programs would be subject to West Virginia tax but exempt from Federal tax. Consult a tax professional for further information.

[6] Can be used for student loan repayment for a maximum lifetime limit of up to $10,000.

Talk It Out

Most parents expect to share the cost of college with their child through student debt, so you need to work together. In the years leading up to college, make sure to let your child know how much of their education will be paid with loans. This way your child can start saving, pursue specific grants or scholarships, and focus on his or her college search on schools where the price is right.

Student debt can be very shocking. Help your child understand what their financial status will be after college. Some more things to discuss with your future college grad:

- Are your child's loans most likely to be federal or private? What are the associated interest rates?
- What is a credit score? How can your child build good credit?
- How will your child's credit score impact his or her loan interest rates? Ability to refinance?
- Does your child aspire to be a college athlete with a potential scholarship?
- Has your child considered work-study programs?
- Do any of his or her prospective schools offer free room and board for resident assistants?

Your children are working hard trying to balance school, homework, sports, extracurriculars, and all the challenges that come along with growing up. Help them understand what comes next by teaching them how loans work, what interest rates are, and how student debt may impact their future.

College is a big dream with a big price tag. It's never too late to put a little extra money aside for your child's college fund, and the longer you have until he or she enrolls, the more opportunity you have to save and grow your money, and handle all your other expenses. Speak with your financial professional, use an online college savings calculator and resources, and talk to your children about your plan. Together, you can make college dreams come true—without student debt becoming a nightmare.

Online resources:

- **The Hartford SMART529 College Savings Calculator** is an online calculator to help you estimate costs for one or more children based on your own financial information; learn more at: hartfordfunds.com/529calculator
- **Savingforcollege.com** is a comprehensive collection of insights, interactive planning tools, calculators, financial aid and scholarship information, and more
- **Collegeboard.org** represents thousands of colleges all over the world and contains savings studies, school profiles, planning resources, and test prep, among countless other services

Speak with your financial professional about how your family plans to save for higher education.

Before investing, an investor should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's 529 plan.

For more information about any 529 college savings plan, contact the plan provider to obtain a Program Description, which includes investment objectives, risks, charges, expenses, and other information; read and consider it carefully before investing. Hartford Funds Distributors, LLC serves as distributor and underwriter for some 529 plans.

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