

What will the
return on your
day be? #ROYD



Preparing for Kids

Hi, it's nice to meet you



- Harvard Business School Class of 2015
- Former management consultant and head of sales operations for a venture-backed company
- Started Her Personal Finance to help high-earning women take charge of their financial futures
- Have helped hundreds of women pay off student loans, buy a home, feel confident about retirement, etc.



Disclaimer



- I'm not a / your financial advisor
- I'm not a / your CPA
- I'm not selling any investments, insurance or any other products
- Everything within is for educational and informational purposes only



Where do I start?

Step One: Save a \$3,000 emergency fund

Step Two: Get your full 401K or 403b match

Step Three: Pay off or refi any **high-interest debt** (interest rate > 5%)

Step Four: Build remaining 5 – 12 month **emergency fund**

Step Five: Invest for your **retirement** (aim for at least 12% with match)

Step Six: Pay off < 5% **debt**, save for **down payment**, and / or **college**

Step Seven: **Invest** more and / or pay off low-interest **mortgage**



Getting Ready for Kids



**You
become
a parent**

Don't stop
working on the
financial basics –
especially
retirement!

Start contributing
to a college fund
AFTER the basics
are in place

Exercise

What's your education saving philosophy?



Paying for College

\$35,331*

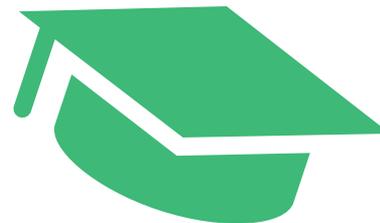
Average Cost for a 4-Year College including
Room & Board

6.8%

Average Rate of Increase in College Costs

\$115,462**

Expected Annual Cost of a 4-Year Public
College in 18 years



* *In this context, college refers to any 4-year postsecondary institution that offers an undergraduate degree program; this is the average cost to first-time, full-time undergraduates.. Data is updated as of Jan 2022.

Source: <https://educationdata.org/average-cost-of-college>

** Expected cost of college in 18-years assumes education costs continue to rise at 6.8% / year.



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Q&A



What percentage of your paycheck should you be contributing to a 529 every pay period?



Saving for College

1. Unlike retirement, there is no fixed percentage of your income you should be saving for college
2. What you need depends on your education savings goals: In-State? Out of State Public? Elite private?

\$600 / month

Saving for 18-years
For 4-year Public



\$1,500 / month

Saving for 18-years
For 4-year Elite Private



Getting Ready for Kids

1

Determine your education savings philosophy

2

Open up a college savings account (probably a 529 but not always)

3

Calculate your college savings number

4

Decide what you can fund (maybe not the full amount)



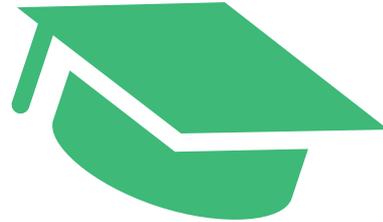
Ways to Save for College

Roth IRA

529 Plan

Coverdell ESA

UTMA / UGMA



Ways to Save for College

Roth IRA



529 Plan

Coverdell ESA

UTMA / UGMA

- No income limit restricting who can contribute
- Can contribute \$32K / married couple without any taxes
- Any earnings come out TAX free
- Can often be deducted from state taxes
- Small impact on financial aid
- Can be used for K-12, vocational education, grad school, etc.



Q&A



How do college savings accounts impact your ability to get scholarships or grants for college?



Saving for College

- **Depends on WHERE you contribute**
- **Custodial accounts or assets owned by your child can reduce financial aid awards by ~20%**
- **A 529 account can ONLY reduce financial aid by 5.64%. Retirement accounts (e.g., Roth IRA) are not included when evaluating financial aid.**
- **Many scholarships are merit and not need based so college savings will NOT impact eligibility**



Q&A



What is the difference between the different 529 plans?

Is there a reason to do something outside of your home state?

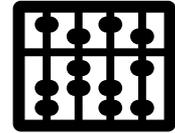


How to Pick a 529 Plan

State Income
Tax
Deductions



Fees



Investment
Options



Performance



Investment
Options

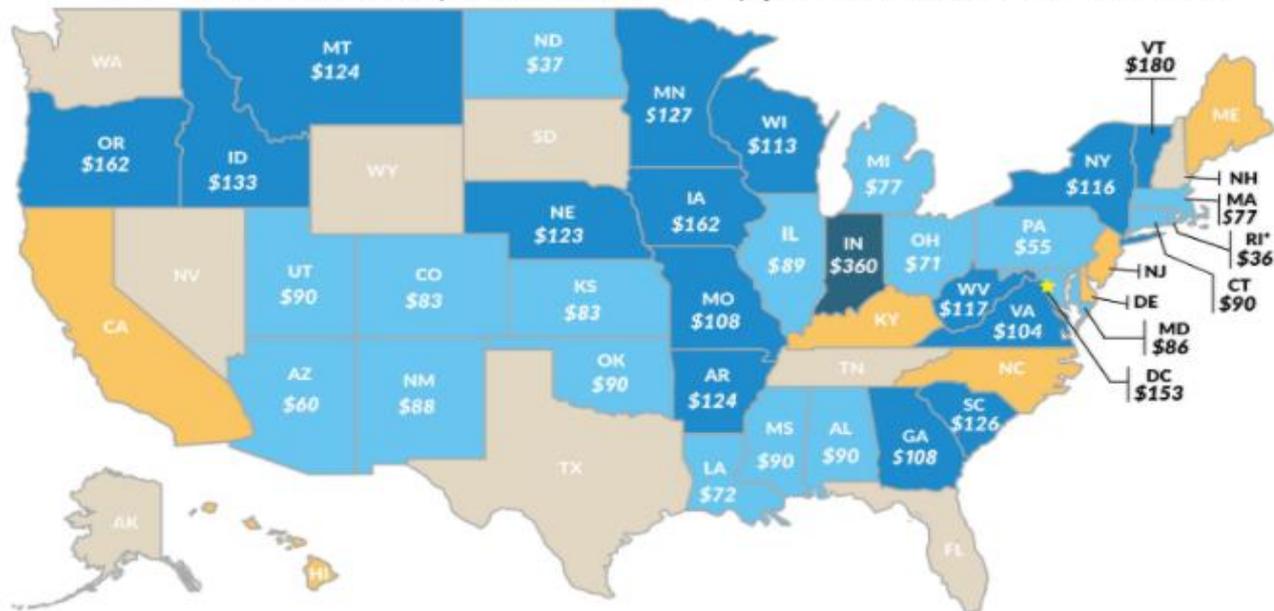


Direct-Sold
Vs. Advisor-
Sold



States with Income Tax Breaks

Estimated tax savings for a couple filing jointly with \$100,000 in taxable income contributing \$100/month to each of their two children's 529 plans. Calculations assume taxpayers itemize deductions on their federal return.



No State Income Tax
 No Deductions
 \$1-100
 \$101-200
 \$200+

*The state of Rhode Island caps deductions at \$1,000 for married couples filing jointly
 Source: Savingforcollege.com State Tax 529 Calculator Copyright © by Saving for College, LLC (Savingforcollege.com). All rights reserved.

Morningstar Best & Worst 529s

Gold-Rated 529 Plans

Issuing State	Plan Name	Distribution	Rating Change	2020 Morningstar Analyst Rating
Illinois	Bright Start Direct-Sold College Savings	Direct	—	★ Gold
Michigan	Michigan Education Savings Program	Direct	—	★ Gold
Utah	my529	Direct	—	★ Gold

Negative-Rated 529 Plans

Issuing State	Plan Name	Distribution	Rating Change	2020 Morningstar Analyst Rating
Maine	NextGen College Investing Plan Select	Advisor	—	Negative
Nevada	SSgA Upromise 529 Plan	Direct	Downgrade	Neutral
Nevada	USAA College Savings Plan	Direct	—	Negative
New Jersey	Franklin Templeton 529 College Savings Plan	Advisor	—	Negative
New Mexico	Scholar's Edge	Advisor	Downgrade	Neutral
South Dakota	CollegeAccess 529 Plan	Advisor	—	Negative
Wisconsin	Tomorrow's Scholar 529 Plan	Advisor	—	Negative

Source: Morningstar Inc. Data as of 10/26/2021.

<https://www.morningstar.com/articles/1062917/the-top-529-education-savings-plans-of-2021>



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When to choose “out of state”

- Your state plan is high fee.
- Your state has no or minimal state income tax benefit, e.g., Texas or California.
 - Understand the state tax benefit.
 - In Illinois, a married couple filing jointly **can deduct up to \$20K from their taxes**. At a 4.8% effective tax rate → **\$960 / year in tax savings**



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Q&A

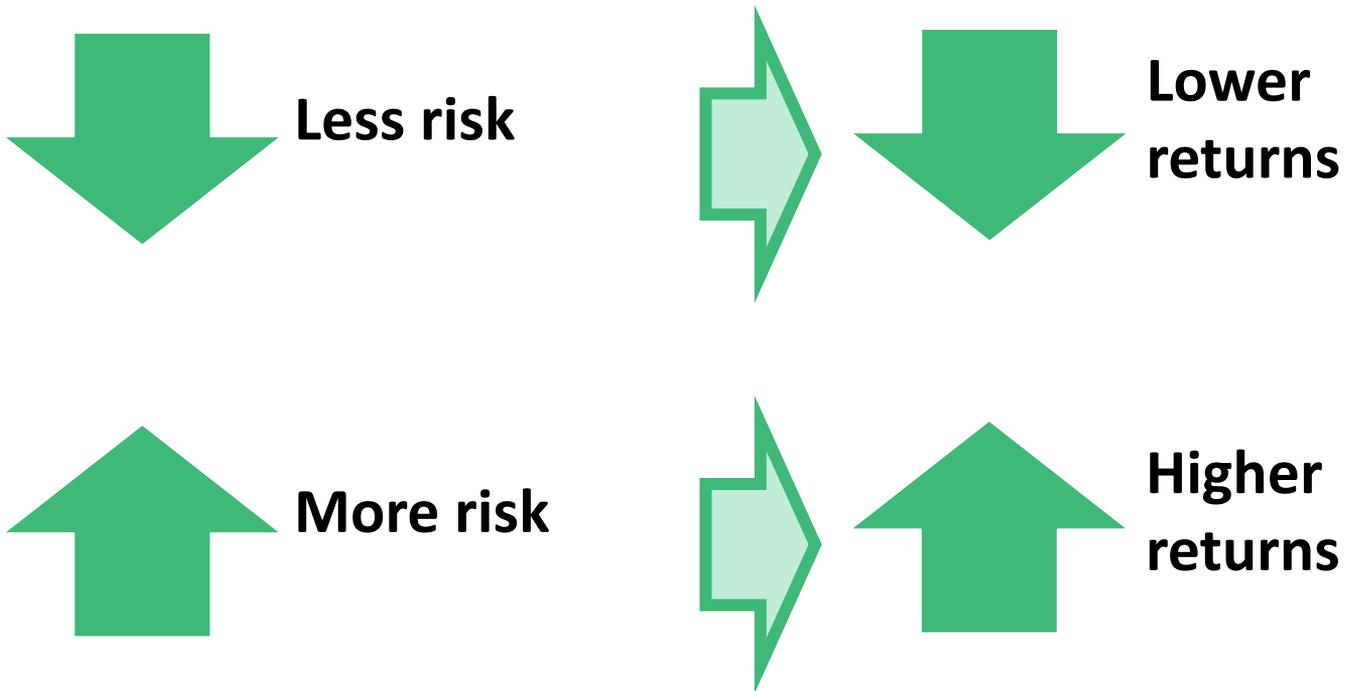


I have a 529 account open.

What is the best way to learn where to invest for the safest returns?



Volatility versus Returns



Saving for College

1. Whenever you're investing, there is **ALWAYS** risk
2. Stocks are riskier than bonds or cash **BUT** have had higher returns
3. Below benchmarks assume investing and getting ~7% / year return
4. Age-Based funds transition from riskier to less risky over time

\$600 / month

Saving for 18-years
For 4-year Public



\$1,500 / month

Saving for 18-years
For 4-year Elite Private

Saving for College Course

Saving for College Simplified

A practical course for newish parents who want to save for college but don't know how much, where, or when.

What's Inside This Course

The Saving for College Curriculum

Getting Started: Choose your Education Savings Philosophy >

Saving for College: Are you ready to save? Where and how much should you save? >

How to Open up a 529 Plan >

Course Wrap >

BUY NOW (\$59)

**Take at your own pace
And take control of
your kid's financial
futures**

<https://herpersonalfinance.com/saving-for-college-course/>



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Download Today's Slides



Questions



Roth IRA

Summary

- Retirement account that can be used for **higher-education expenses***

Contribution Limit / Year

- **Limit is \$6K / year contribution or \$500 / month** if you're under 50.

Income Limits

- **Restrictions for high-earners.** If you earn more than \$144K as a single or \$214K as a married couple, you cannot directly contribute.

Taxes breaks

- Money goes in after-tax but the growth and initial contributions come out **tax free**.

Financial Aid

- **Does NOT count against financial aid.**

Flexibility

- **Flexible because it is primarily a retirement account.** If your child does not go to college, available for parent's retirement.

Downsides

- **College happens before retirement.** Don't put yourself in a bad financial situation to help your children!

*Expenses must be QUALIFIED expenses e.g., tuition, room & board, or books for a qualifying institution.