FINANCIAL MILESTONES SERIES

After Graduating High School

COLLEGE LOANS, 529 COLLEGE SAVINGS ACCOUNTS, AND CREDIT

MORGAN ROSEL WEALTH MANAGEMENT

Why College is Important

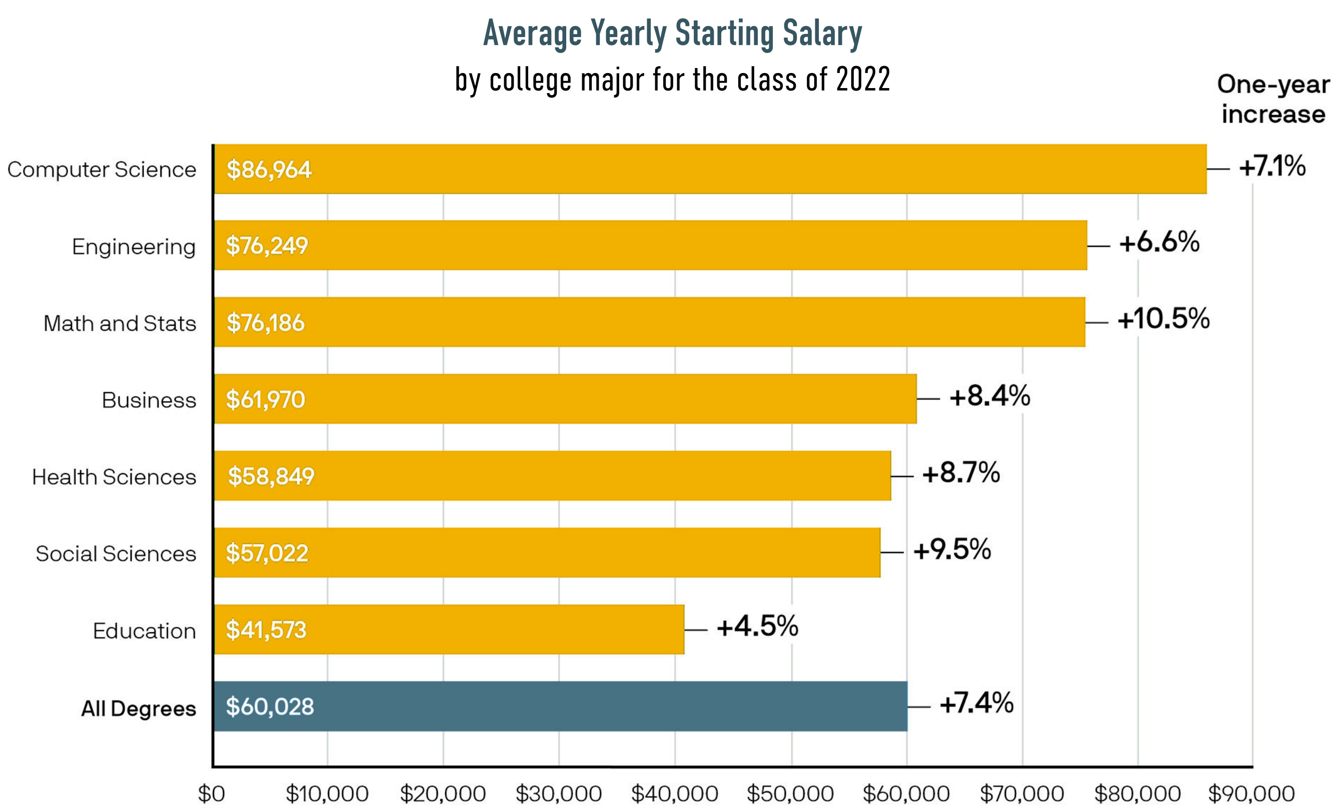
While a college degree may seem overpriced, the goal is for the degree to pay for itself and ideally return more in future earnings. The average bachelor's degree holder earns 86% more than high school graduates. In one year alone, that's an extra $38,930, which is enough to pay for three semesters of current expenses at an in-state public college, shown here. Furthermore, unemployment rates have consistently been lower for college graduates compared to just high school graduates. Consequently, a college diploma has become a necessity for finding and keeping a good job. The visual below demonstrates the highest-paying entry-level positions available to graduates, which as previously stated, is significantly higher than the average non-college graduate.

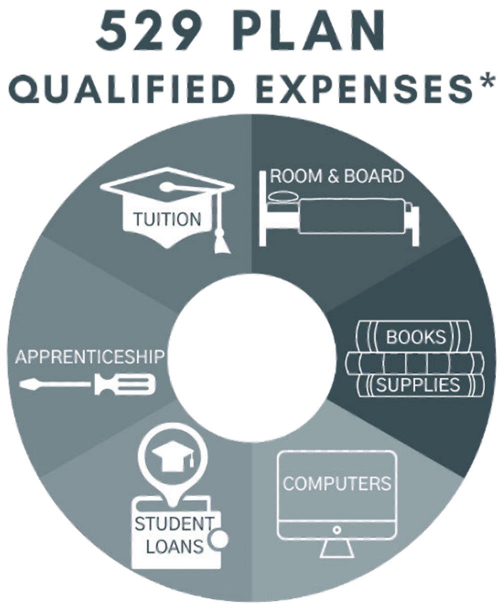
Paying for College

One of the difficult tasks of going to college is considering how to pay for the rising costs of attendance. Whether that may be by taking out student loans or using a 529 college savings plan established by a parent or grandparent, it is important to have a plan.

529 College Saving Plan

The most tax-efficient and easiest route to pay for college is a 529 college savings plan. The primary benefit is that all earnings in the account accumulate tax-free, and no federal income tax is owed on withdrawals if they are for educational expenses, as shown here.





*Some expenses may be subject to state rules of individual 529 plans.

Education expenses are considered, as stated by the IRS, tuition and fees, books and supplies, room and board, student loans (up to a limit of $10,000), and off-campus housing (any amount above cost attendance figures not qualified - see link to Colorado University for withdrawal amounts here). Other non-qualified expenses, including health insurance, transportation costs, or extracurricular activities, are not qualified for withdrawal. Withdrawing for expenses that do not qualify will incur income tax on the portion of the withdrawal that's attributed to earnings plus a 10% penalty. Be sure to keep receipts of withdrawals from the account to prove they were qualified expenses.

Scholarships and Federal Aid

In many cases, a 529 college savings plan will not cover the full cost of college, so other options such as federal grants and scholarships should be considered. The first step is to fill out the FAFSA form, which can determine eligibility for federal grants and scholarships, effectively lowering the cost of attendance for students if deemed eligible. Additionally, merit scholarships are plentiful among public universities, applying for these can also reduce students' bills and, in some cases, eliminate it. Students should take the time to fill out these applications.

Student Loans

After considering all scholarships and federal grants available, if there are still expenses to cover, students can explore a couple of options for student loans. Federal loans, determined by the FAFSA, include direct subsidized loans, which have the advantage of the government covering interest while the student is in school (direct subsidized). Unsubsidized loans, on the other hand, are not based on financial need and will incur interest from the moment the loan is disbursed until it is fully paid off. Both Federal loan types do not require a credit check or a previous credit score. Students should also consider private loans, such as those offered by Sallie Mae. However, private loans often have higher interest rates and fewer benefits compared to federal loans, and they may require a good credit score to qualify. Many colleges offer work-study programs that can reduce the amount of money that may be needed to borrow by working a part-time job on campus. While most of these programs only pay minimum wage, they are offered at most public institutions and are federally funded to help students pay off their loan debt. So, before taking out a student loan, students should plan and consider all options to cover their tuition costs to be debt-free after college.

The Shortcomings of College

The number one barrier to enrolling in college is the cost. College costs have ballooned in the past three decades, nearly doubling in price. While some of this influx is due to inflation, a lot of it is due to the increase in demand for a college education along with increases in administrative and operating costs with little to no improvement in the value of a degree. The average cost to attend an in-state college across the United States is $103,572 and $180,680 for out-of-state over a four-year degree and these prices will continue to rise at an average rate of 5.7% yearly. With prices being so high, the idea of going to college is almost unfathomable for a lot of Americans. Taking on such a stark amount of debt is daunting at a young age, and the crushing weight of this debt is rightfully too much to handle for many people.

What is Credit?

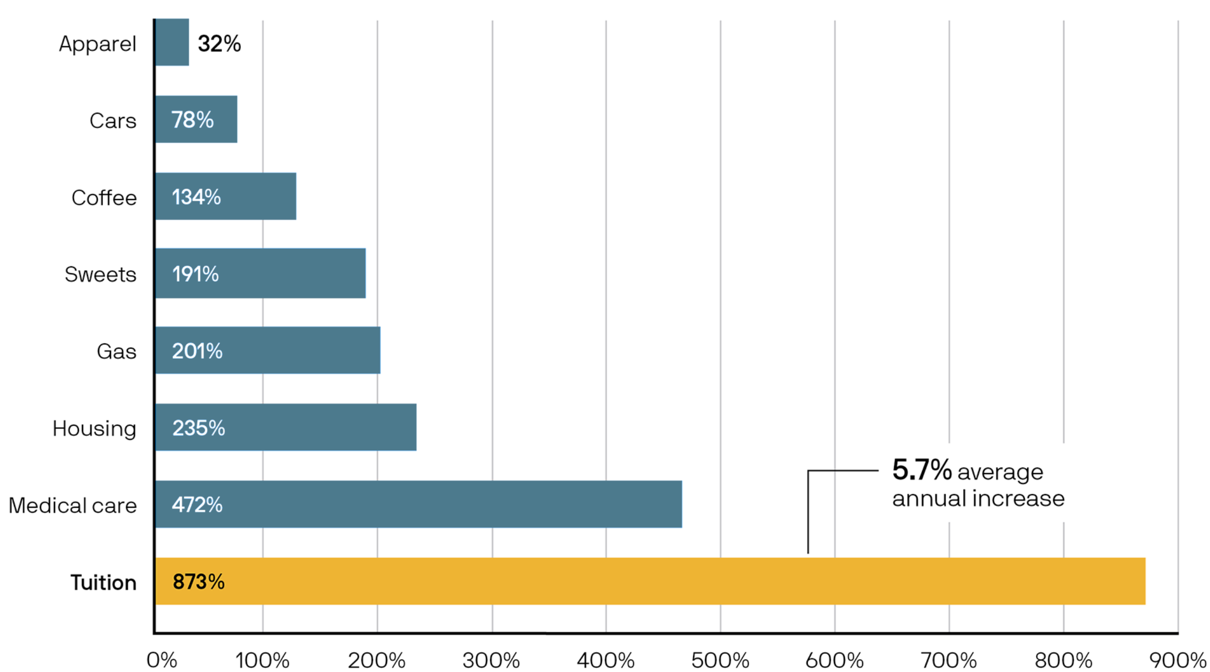
In addition to College and associated expenses, a key financial tool to understand is credit. Credit is an agreement between a borrower and a lender to temporarily obtain money that will be due back at a later period. Credit agreements consist of a timeline of payments including a portion of the principal amount of the money borrowed with interest on top of it. If the transaction goes according to plan, credit is built which is reflected by your credit score. Some of the different kinds of credit include a credit card, student loans, auto loans, and mortgages on real estate.

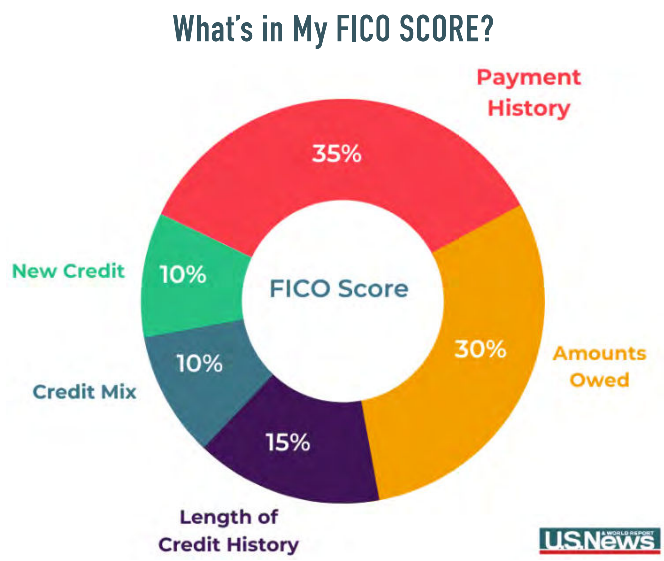
Credit Score

An important factor when taking on debt is your credit score. A credit score is a three-digit number

College Tuition vs. Other Expenses

Cumulative percentage price change since 1983





derived from your credit history that indicates how effectively you can manage your debt. It is a tool used by lenders to anticipate your ability to pay back your debt on time and in its full amount. The following are ways to increase your credit:

Payment history: The record of on-time and late payments from loans and credit cards (35%). **Amounts owed:** Also known as your debt-to-credit ratio, it is how much money you owe and how much of your credit card limit you've used (30%). **Duration of credit history:** The length of time your credit accounts have been open (15%). **Having different types of credit (Credit mix):** The more types of credit (auto loans, student loans, mortgage, credit cards) you have, the better (10%) **Amount of credit inquiries:** When someone verifies your credit when you purchase credit, it decreases your score (10%).

Having a good credit score is crucial for activities such as obtaining a loan, applying for new credit cards, and getting reduced interest rates on payments. Without a good credit score, functioning in a world where credit is so important is nearly impossible, unless you plan to pay for everything in cash. In addition, if your money is stolen, it is much easier for you to file a claim with no effect on your financial stability.

The Downside of Credit Cards

1. Extremely high interest rates if debt is not paid off
2. Many credit card companies charge yearly fees
3. Provide a false sense of financial capability if the borrower isn't smart with their purchasing habits
4. Missing payments will result in a lowered credit rating decreasing the possibility of obtaining capital

The Kind of Credit Card You Should Get

There are many types of credit cards all with different perks, fees, and interest rates. Finding the one that is best suited for you is vital. It is important to note that no one should carry a balance on a credit card. When you carry a balance, it puts you at risk of paying extremely high interest rates. When you pay back the balance on time, the interest rates will have no impact, thus, interest rates should be the last priority on the list when choosing a credit card. The card we do recommend is a credit-building card. These are designed specifically to improve your credit score with as little credit risk as possible. They additionally provide perks such as no fees, free FICO credit verification, and lower-cap credit maximums. Examples include secured credit cards, unsecured credit-building cards, and student credit cards (examples linked here).

About Morgan Rosel Wealth Management

At Morgan Rosel, you don't have to press 0 to speak to a representative. We just pick up. We're stubbornly committed to bringing the human element back to financial planning and investment management. That means promptly answering your questions, thoroughly understanding your goals, and expertly implementing a strategy based on your best interests. We know that earning your trust requires producing exceptional results and continually exceeding your expectations. And that is just what we'll do. Because we're in your corner.

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