

Ep. 94: Year End Family Finances with Ann Garcia

You're listening to Parenting in the First Three Years, the place where we explore the strategies and soul of parenting from pregnancy through the first three years of life. I'm your host Ann McKittrick. Thank you so much for joining me.

Hey there and welcome to the podcast. I am so glad that you are here with me. You know, I have a special guest. Her name is Ann Garcia. So we are two Ann's talking to you today. On kind of a scary day, and we're talking about kind of a scary subject, and that is money. And today is Halloween. So thank you, Ann, so much for being here with us.

Thank you for having me. So you've written a book. It's called How to Pay for College. So why don't you tell us a little bit about your book and why you wrote it? Yeah, I'm financial advisor, and I'm also a parent of two kids, and I noticed early in my career as an advisor that I was talking a lot to two groups of people.

1 group was parents who couldn't figure out how to fit this gigantic expense called college into their budget and all their other financial priorities. And another 1 was young adults who were recent college grads and were struggling with really just the basic building blocks of their adult financial lives, whether it was.

Saving for retirement, trying to buy a home in some cases, even just, you know, having emergency savings because they'd taken out so much student loan debt to try to get their education. And that was really overwhelming them and really dictating all of, all of their choices as adults sort of realized if I could help that first group, you know, those parents who are trying to figure out how to pay for this, then I might see less of that second group.

And, you know, again, as a parent myself, I knew this was something that I needed to know as well. So I dug into the topic, started writing a blog about it that led to the book and a website and an online course and loads and loads of families that I've worked with over the years to come up with a good financial plans that help their kids get a great education and that doesn't knock all of their other financial and other life goals out of life.

Out of reach, right? It also so familiar to me. You know, we had three kids that were right close together and they all chose out of state colleges and because they were so close together. There were just a lot of years of really heavy expenses. It was quite crunchy for quite a while, and so, you know, we're talking to parents of infants and toddlers.

Birth to three is this podcast. How can you even know how to be thinking that far in advance when you have babies and toddlers? What do you say? Yeah, well, I think I think when you have young kids, that's a really great time for the parents to get on the same page about where college fits in there.

You know, both in their priorities for their kids and in their priorities for their money. You know, some parents are like. Absolutely. Our kids are going to college. And I would say, you know, if you have two parents who both have graduate degrees, the likelihood that none of their kids are going to go to college is pretty small.

So I think that's a reasonable expectation. You have other families who say, you know, I want to make college available as one of several choices for my kid and you have other families who say, you know, I really don't feel like colleges is, is part of our, our pathway. I do think because the amount of time that you have to prepare for college compared with any of your other financial objectives tends to be much shorter, right?

You have a child and when they are 18, they're going to graduate from high school and go on to the next step that it's really beneficial for parents of young kids to think about it from the perspective of this is. At a minimum, this is an opportunity I want to make available to my child. You can always change your mind over time.

They can change their pathway over time. But if you miss out on those, you know, those early years of saving opportunities, you can be hamstringing your child's future choices. Yeah, and I would vouch for that just as a person in general, you know, at my age, I wish so badly that someone had taught me the power of savings and interest when I was in my 20s.

So one of the chapters in your book that I think really applies to this whole question that you were just talking about is why college, you know, like, what are the benefits? What are the pros and cons of a college education? Because for one thing. It's hard to say today, what's going to be important in 17, 18 years for your child and the economy and the jobs and all that stuff.

What do you say? Yeah. And I don't know if this little, you know, squalling bundle is an engineer or a philosopher or a welder, right. Or an artist or a writer. Yeah. Yeah, well, you know, I think that so much of our conversation about college gets tangled up in the list price of college. And, you know, is it really worth 300 and change 1, 000 to educate your child?

And I think that when we think about college, so much so much of our conversation Thinking about it is not about the opportunities that it creates, but about those 4 years and the experiences that someone has during those 4 years, you know, are they going to be in the Greek system? Are they going to go to football games?

You know, what does their dorm look like? And whatnot. So if we can take a step back from that and think about the adult that we're trying to create, and that future person that we're trying, that we're trying to shape, I think that is really, really beneficial. College provides tons of benefits. You know, the financial ones are really Easy to quantify during the Great Recession, the financial crisis of 2008 2009, when the national unemployment rate was over 10%, a shocking statistic came out, which was that the unemployment rate for college graduates had reached its highest point ever.

It had crossed 4%. And so, you know, if you think of your child's long term financial security, a college degree is a is the great way to to provide that. But the benefits of college are not just economic college graduates consistently. Rate higher than those without degrees on surveys of life satisfaction.

They have better health outcome of longer lives. There's less type 2 diabetes, less heart disease among college graduate. It's just that I was really surprised by is college graduates. And less likely to divorce than those without a degree. And I know that for a long time, people have thought, you know, the economic stability that a college degree provides might be a disincentive to to marry.

But in fact, it is the opposite. So when you're thinking of that future self that you're trying to create. It's probably a self that has at least a few of those attributes, you know, the economic stability, the personal stability, the good health outcomes, the higher life satisfaction. And so and so college is probably an outcome that you want to at least make possible.

Now, the good news is those benefits aren't just for people who go to Ivy League colleges, you know, who spend 80, 000 a year on college. That is a consistent set of benefits across college degree holders. And in fact, there's been

a lot of, a lot of research done on whether it, whether or not it matters where you go to college.

And in fact, far more important than where you go to college is how you go to college. And specifically how you engage with your college experience. And so, you know, regardless of public or private, big school or small school selective or non-selective what really drives good outcomes from college is things like having an opportunity to apply classroom learning to a job.

It's interacting with professors, feeling like there's people there who care about you and care about your outcomes. That's it. Participating in social activities. It's doing projects that take a semester or longer to complete. A lot of those are really just life skills that are going to benefit you as you transition from.

Your childhood life to your college life to your adult life, you know, the ability to engage with your surroundings, the ability to find mentors, get help. Yeah, yeah. Focus on something over an extended period of time. Yeah, I can so resonate with that just with my own memories of being in college. I was thinking about.

You know, just the things that I had to learn how to do by myself that I just wouldn't have ever had the opportunity otherwise. And 1 story that comes to mind is that I was, I was driving on campus and it was a hilly campus and I was going uphill and I ran out of gas and so put the car in park and. I'm just sitting there on a slant trying to get some gas or, you know, trying to solve my problem and I get some gas.

Somebody put some gas in my tank and I try to start the car and it won't start because the gas tanks in the back of the car and it can't get to the engine. And so we had to get, you know, push the car up the hill to the flat spot, get what it needed in order to start the car. But I would have never had that experience staying at home, not, you know, staying in flat Texas, because we just don't have those kind of problems.

And so I think that on your feet. Problem solving of going to a different place for college is probably one of the most beneficial things for a kid is just having to figure out life, you know, how to, how to eat, what to eat, all those kinds of things. Yeah, yeah, absolutely. And I mean, for a parent who's staring down the barrel of this very large expense, it can be tough to justify from the perspective of, you know, it's great to learn how to clean out the lint screen in the dryer and how to, you know, live with someone who might be disagreeable a large chunk of the day.

So as I think it's, it's that really look at there's some, you know, there's some, those are huge, but there's some, you know, some other benefits. Above and beyond that, that maybe are slightly more slightly more quantifiable. But, you know, the great news about it is, like I said, those are available to graduates of any college and you can literally go to college for any price.

My son has a friend who just finished her degree for 0. So she did two years of free community college, and then she was working at Starbucks and Starbucks has a tuition partnership program with Arizona State. So she finished up her degree through Arizona State's online program and literally paid 0 of wow.

Yeah, of tuition. So, so college is out there at a whole lot of price points. So, you know, the fact that you are never going to spend 300, 000. To educate your child should not be a reason for you to say, my child isn't going to go to college.

Yeah, that's a really great point. So tell us how you help families plan for the future, even when they're in this stage of life when there is not an extra dollar to be found because diapers and formula and childcare and all of those things.

Take every bit you've got. Yeah, it's tough to carve out an extra dollar when you have a young person. You know, I always recommend that even if you don't have that extra dollar that you set up a 529 college savings plan for your child at a very early age. Now, 529 is a dedicated education savings account.

It has several tax benefits. Many states will give you a state tax deduction for your contributions. And then the growth in the account is tax free and then taking money out of the account is tax free as long as it's used for qualified higher education expenses. And in some places, it can be used for private K12 school.

One of the great things about 529 for new parents or parents have very young kids where you're in that really tight financial band of having a young one is almost every 529 has a tool called a gifting page. And if you have ever said to people, stop giving my kids toys, we don't want any more toys.

Your 529s gifting page should be your best friend because that's an opportunity to say, hey, instead of toys for this birthday or Christmas, how about contributing to our college savings account and then that person can make a contribution directly into that account. And so even if you are yourself not in a position to be contributing, that's a great way to start building up some savings is what you'll find as your child gets.

Closer and closer to college is the more savings you have, the more choices they're going to have for where they go to college. And so the sooner you start saving, as you were saying before, you know, the power of savings and compounding, the sooner you start savings, the more work your money does.

The later you start saving, the more work you do to come up with the same with the same amount of money. Right? Yeah. But a great another great thing about 529 is you can typically set up a very low monthly contribution, you know, oftentimes as low as \$10 a month. So if you can find \$10 in your family's budget.

Every month for 18 years. That's going to result in a nice amount of dollars that are available when the time comes to pay for college. And in fact, if you increase that amount by 5 every year on your child's birthday, that monthly contribution, you'd have about somewhere between \$15 - 20,000 more available for college.

And one would hope that 5 out of your monthly budget every year would be something you could do without a lot of hardship. That feels so comfortable, you know, like it doesn't feel scary at all. I mean, I'm just thinking if I were a single mom and I had three or four kids and I'm just thinking there is no way these kids are going to just have to have full rides if they're going to go anywhere.

But \$5-10 a month per child is doable. Yeah, that's really a good way to do it too, is every year on your child's birthday. Just spend some time reflecting about what a great year you've just had and how much growth and progress they've made. And then spend some time thinking about the future self that you're trying to create through your parenting and the choices that you make around them.

And that's a great time to say, okay, now, when I look at my budget, 5, Where can I find another 5 or 10 a month to support that future self? Yeah, that's a great idea because even, you know, just what you see and observe in your child every year. We'll just become clearer and clearer and clearer what their interests are and, you know, what their options might be as they grow up and what their desires might be when they get out of school.

Well, and, you know, another really great thing that happened a couple of years ago is the secure 2.0 act passed. And 1 of the provisions of that is that you can take unused 529 dollars and, and transfer them over to a Roth IRA for your

child. So. You know, people used to say, well, I'm not sure if my kid's going to go to college, so I don't want to start saving in a college savings account when they're when they're a baby.

Yeah. With this change, you can really think of a 529 as your child's launch fund. So if they don't go to college, you transfer it over to a Roth IRA. They can take that money out. And use it to, you know, pay for a car if they need one for their job or over time, take out enough that maybe it helps them with the down payment on a house or a deposit on an apartment or, or any of those other things.

So, so 529s are really pretty, pretty low risk for families at this at this point. Yeah, that's good. So let's say a parent got your own student loans that you're still paying off and you have children that you're trying to save for what's your advice to parents in that case? When you've got your own student loans, your own financial obligations and financial obligations for your child, it is tough to balance, especially because, you know, there's.

Chances are good that there's no extra money around and involved. I think the 1st step for a parent in that situation is look at your options with your own student loans. You know, could you be in an income based repayment program? That would free up some additional cash for you on an on an ongoing basis.

The new save repayment plan is really beneficial because your interest doesn't accrue on the loan. So if you are eligible for an income driven or income based repayment plan, particularly the save plan, that would be something to look at just to manage that expense in your overall household budget.

I like to think of college savings being something that you think about in relation to retirement savings. I know the saying has often been save for retirement, not for college because there are loans for college, but not for retirement. Well, that's how we got over a trillion dollars in outstanding student loan debt.

And so if you are a parent who is still paying off your student loans, you might be thinking that is something I absolutely want to avoid or mitigate for my own child. So, again, a roundabout way of getting to my point of this is think of it in in terms of your retirement savings if you are not.

Saving for retirement, you shouldn't be saving for college. So retirement savings should be your 1st priority if you're saving for retirement, but not maxing out. And in 2023, maxing out is \$22,500 into your 401k or \$6500 into your IRA if

you're under age 50. so if you're not hitting out hitting that maximum, then no more than 10 percent of what you're saving for retirement should go into college.

So if you're saving \$2,000 a year for retirement, \$200 a year as your college savings budget, if you are maxing out retirement and you're in good standing on your student loans. And, you know, oftentimes, if you're in an income based repayment plan, contributing more to retirement will help bring your student loan payment down as well, because that's subtracted from your income.

But if you are maxing out retirement and making progress on your own student loans, then it's really just a matter of looking at your budget on an ongoing basis and saying, what additional dollars do I, do I have available? But if you're not in that income Point of being able to say that's where your 529s gifting page comes into play that you, you know, share that with people who are generous with your kids and ask them to help you build up that pool of money.

I love that idea. A lot. It's the superpower of 529s, right? Because there are a lot of people who wouldn't give money to your kid, but they would be thrilled to help support their education. Right. Yeah. And also like, even just as a, as a person who gives gifts to children, I think, well, what do they not already have?

You know, what could I give them that they could really, really want, you know? And of course their college fund is something they don't know that they want until later on. So maybe a little dollar store, store, something to go with. Exactly.

So we are, you know, at the end of the year here, is there anything that parents should know about that would be beneficial for them tax wise as they are looking at closing out the financial year?

Yeah, well, so, since we've been talking about 529s, typically with your 529, if your state offers a tax deduction for your contributions, that contribution has to be completed before the end of the year to be eligible for. That tax benefit so unlike your IRA contributions that can be made up until you file your taxes.

Typically, that's that 529 money has to be. Not just check dated December 31st, but actually in the account as of December 31st. So make sure that you are hitting that deadline. And like I said, with the holidays coming up, you know, share your accounts, gifting page with people who are generous with your kids.

Yeah. And then if you have the student loans, you know, think about our, if you're in an income based plan, are there things that you can do to lower your income? So the next time that you recertify, that'll bring your monthly payment on those loans, loans down as well. Good. Well, this is really, really helpful.

And I know that people are going to get great ideas about how they can begin this process now with their children.

As we wrap this up, do you have any last words of encouragement for those who might be listening about their child's or just finances in general? I would say, you know, in, in general, since we're, you know, since we're talking about college, don't be distracted by the fact that Stanford costs \$85,000 a year.

Your child can get an education at any price point. That works for your family. Your job as a parent is to prepare your child for those choices. So. You know, when they're young, talk to them about things that you thought were fun about college, you know, maybe take them to a college football game or an activity at a local at a local college campus, but just introduce this as something that maybe enriched your life.

Something that you would like to enrich their lives, keep it, not scary and do the things that are in your power to, to build up some savings. So that when the time comes, they will have those choices. That's great. Thank you so much for joining us. I'm going to put your links and also a link to your book in the show notes so that people can find that and get it read all about it.

Because I know that it's very, very detailed and has so much great advice in it. And I think it's a great one for everyone to take a look at. Thank you for being here. And I sure appreciate you. Oh, thanks for having me.

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