



CENTS
CONSUMER EDUCATION
AND TRAINING SERVICES

PLANNING FOR HIGHER EDUCATION FOR PARENTS ACTIVITY

This project was created by CENTS with sponsorship from the Washington Student Achievement Council (WSAC) and Washington 529 Plans (WA 529). CENTS is a non-profit organization and its mission is to help people improve their financial health. CENTS provides several programs to help students and families plan wisely for post-secondary education or training, including Student Loan Awareness Month (SLAM). WSAC provides strategic planning, oversight, and advocacy to support increased student success and higher levels of educational attainment in Washington state. WA 529 provides two savings plans to help families save for their student's future higher education.



PLANNING FOR HIGHER EDUCATION ACTIVITY FOR FAMILIES

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INTRODUCTION

This **Planning for Higher Education Activity** (“the Activity”) will take you approximately 30-60 minutes to complete. This Activity will help empower you to plan for your student’s higher education. We acknowledge the cost of higher education can be very expensive and many families cannot afford to cover the cost out of pocket. Nationally for the 2016-2017 academic year, 85% of students starting a 4-year degree got some form of financial aid. This includes grants, scholarships, and loans. *Source: National Center for Education Statistics*

Paying for higher education is a large expense and you are not alone if you are concerned about whether you can afford it. There are steps you can take to reduce the cost of your student’s education and/or build up your savings for your student. This Activity discusses both of these tactics. The more you can save, the better, and any amount you are able to save will help put your student in a better position.

EVERY BIT HELPS

Let’s say you save \$10,000. That’s money your student doesn’t have to borrow. A \$10,000 student loan paid back on a 25-year repayment plan at a 5.5% interest rate will cost \$18,422.

So, the \$10,000 you saved for your student’s education can end up saving your student a lot more money.

This Activity covers five steps:

Step 1: Achieving the right frame of mind

Step 2: Understanding the cost of your student’s higher education

Step 3: Figuring out how much you can save

Step 4: Making improvements to your financial situation

Step 5: Checking in with your plan - involving the whole family

There are a few places in this Activity where we will refer you to the **Planning for Higher Education Resource Section** (“the Resource Section”). You should also have a copy of this Resource Section with you as you advance through the Activity. Let’s get started with **Step 1** below.

STEP 1: ACHIEVING THE RIGHT FRAME OF MIND

THE IMPORTANCE OF HIGHER EDUCATION

There are several reasons to encourage your student to pursue higher education.

- ⇒ Individuals with a bachelor's degree make an average of **84% more** over a lifetime than high school graduates, making a bachelor's degree worth an estimated \$2.8 million. *Source: The College Payoff, Georgetown University Center on Education and the Workforce.*
- ⇒ The unemployment rate is **double** for individuals with only a high school diploma compared to individuals with a post-secondary degree. College graduates also have lower poverty rates than high school graduates. *Source: Bureau of Labor Statistics.*
- ⇒ According to a 2013 Pew Research Center survey, college graduates are more satisfied with their jobs. The same study found that about 9 out of 10 college grads say college has been, or will be, worth the investment. Further, college-educated millennials are more likely to see themselves on a career path, rather than just working at a job to "get by."
- ⇒ A study by Georgetown University found that the growth in employment in the past two decades has been entirely due to increases in college-educated workers. *Source: Weathering the Economic Storm; Georgetown University.*

Of course, college isn't the only option after high school. Students who complete training or learn a skill or trade can also have a high quality of life. In all, some 30 million jobs in the United States that pay an average of \$55,000 per year don't require bachelor's degrees, according to the Georgetown Center on Education and the Workforce.

Encourage your student to pursue higher education, whether it's a college degree, a trade, or a skill.

AVOID THINKING TRAPS

Thinking about saving for college can be overwhelming. The Activity breaks this big topic into achievable steps. Part of the first step is to self-assess whether you are suffering from any thinking traps. Thinking traps, in this case, are ways of thinking about saving for higher education that get in the way of your goal. Some common thinking traps are listed below, along with some suggested thoughts to counter these traps.

| Thinking Trap | Challenge |
|---|---|
| <i>“College might be free one day so why bother?”</i> | ⇒ The potential new legislation may not be enacted. ⇒ The potential new legislation will most likely come with income restrictions. ⇒ See EXAMPLE 1 and EXAMPLE 2 on the next page. |
| <i>“College is way too expensive and I’ll never be able to save enough to pay for it.”</i> | ⇒ You may not have to pay the full price. ⇒ We will cover ways you can reduce the cost in this Activity. |
| <i>“I don’t make enough money to save for my student’s education.”</i> | ⇒ This Activity can help you determine if your income can sustain a plan for college savings. |
| <i>“It’s too much work.”</i> | ⇒ We’ll walk you through the process and help make it worth your while. |
| <i>“This is all my student’s responsibility.”</i> | ⇒ It is important to note colleges have an Expected Family Contribution (EFC) they expect the family to contribute. We discuss EFC later in the Activity. |
| <i>“It’s too late.”</i> | ⇒ Starting late is better than not starting at all. Every bit helps! |
| <i>“My child is young and I’ll worry about it later.”</i> | ⇒ The earlier you start, the easier it will be to make a financial impact. |

| | |
|---|--|
| <p><i>“I could save, but ____.”</i></p> | <p>⇒ This mindset focuses on why one cannot save. Flip it and focus on what you can do to save.</p> |
| <p><i>“My child may not go to college.”</i></p> | <p>⇒ If your student ends up not going to college, you can use the money you saved for other things, including trade school, some training programs and other forms of higher education.</p> |
| <p><i>“My child will get free tuition and/or a scholarship so I don’t have to worry about this.”</i></p> | <p>⇒ See the “College might be free one day” thinking trap.</p> |
| <p><i>“My friend said I should save for retirement.”</i></p> | <p>⇒ In reality, you should save for both your retirement, and your child’s education. This Activity will help you assess your financial situation.</p> |

EXAMPLE 1:

Under the Washington College Grant, full tuition may only be granted to families with a household income of \$50,500 or less.

The potential new legislation will most likely not cover living expenses.

EXAMPLE 2:

Take a moment to assess if you have any of these thinking traps. If you do, **challenge** the thinking trap and don't let it stop you from taking steps to help your student. Keep these thinking traps in mind as you move through this Activity.

In-state tuition for one year at the University of Washington was \$11,207 in the 2018-19 academic year. However, the total cost for one year at UW including fees, room & board, and books was more than \$27,000 if you live on campus. Even if you remove the \$11,207 in tuition, that still leaves a shortfall of nearly \$16,000 for one year.

HELPFUL MINDSETS

Here are some helpful mindsets that may help you take action for your student.

EVERY BIT HELPS

It's ok if you can't save the amount you'd like to save in an ideal world. Any amount you can save will help your student.

BE A PROBLEM SOLVER

What can you do to plan for your student's college education? Do your best, be gentle with yourself, realize every bit helps, and don't give up.

BE AN EMPOWERED CONSUMER

Take control of your finances to make an informed decision.

OPPORTUNITY COST

Think about the best use of your money. Be wary of short-term gratification, long-term loss.

THE MAGIC OF COMPOUND INTEREST

The earlier you start saving, the better. See examples 3 and 4 on the next page.

EXAMPLE 3:

Family A starts a college fund for their child when she is born. They put \$5,000 in a savings account with a 5% annual interest rate and make no other contributions. When the child turns 18, the account is worth **\$12,275**, more than double the initial investment.

EXAMPLE 4:

Family B starts a college fund when their 13-year-old shows a desire to go to college. They put \$5,000 in a savings account with a 5% annual interest rate and make no other contributions. When the young adult is ready to go to college 5 years later, the account is worth **\$6,416.79**.

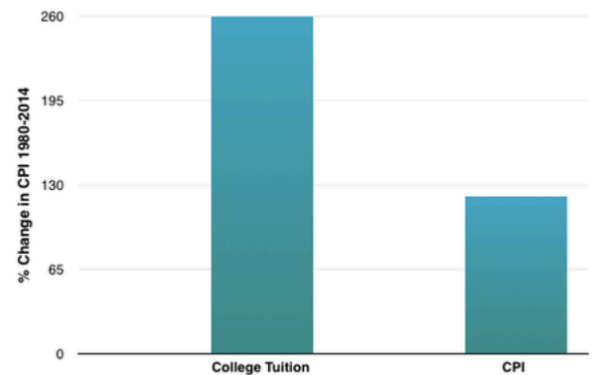
STEP 2:

UNDERSTANDING THE COST OF YOUR STUDENT'S HIGHER EDUCATION

In this step, you'll drill down on estimating the cost of your student's higher education.

THE HIGH COST OF HIGHER EDUCATION

The average annual increase in college tuition from 1980 to 2014 **exceeded 260%**, compared to an increase of less than **120%** in all consumer items. *Source: Business Insider, "This chart shows how quickly college tuition has skyrocketed since 1980", July 20, 2015.*



Business Insider

Skyrocketing tuition costs have contributed to students and families having to take out more student loans to pay for college. A 2016 issue of Consumer Reports magazine reported **42 million people owe \$1.3 trillion** in student loan debt, compared to "just" **\$250 billion as recently as 2003**. The Los Angeles Times reported in June 2019 that the total U.S. student loan debt total had risen to **\$1.6 trillion**.

These are eye-opening numbers. However, it is important to not let these numbers prevent you from engaging in planning for your student's education. Now more than ever, it is important for students and families to plan wisely for higher education. There are actions you and your student can take to minimize student loan debt. Remember, every bit you do makes a difference.

THE CATEGORIES OF COLLEGE EXPENSES

Below is an overview of college expense categories to illustrate a true picture of the entire cost, not just tuition.

Tuition & Fees:

- This is what you pay for the college classes or credits.

Books & Supplies:

- Books, materials, and supplies for classes are also significant expenses related to higher education.

Room & Board:

- This includes housing and perhaps a school cafeteria/meal plan.

All Other Living Expenses:

- This category covers all other living expenses for your student. Food outside of the meal plan, entertainment, transportation, health care costs, etc.

Travel:

- This expense could fall under All Other Living Expenses, but is highlighted here, as there may be more travel involved if your student attends a college further away.

KEY HIGHER EDUCATION COST DEFINITIONS

This is a partial list of key terms to understand when researching the costs of higher education.

1. Full sticker price:

This is the total cost of the college/school before factoring in any grants or scholarships, and includes tuition and estimated living expenses. You may not have to pay the full sticker price and there may be steps you can take to reduce it, which we'll overview. Keep in mind the full sticker price is for one year. Try not to let the full sticker price scare you away because you may not have to pay that amount.

2. Net price:

This is the full sticker price AFTER grants or scholarships. (One typically does not have to pay back grants or scholarships, as long as the student meets the stated requirements.) The net amount is the amount your student and you will be responsible for. Later in the Activity, you'll find out how to identify the average net price of a particular college or education/training choice. You'll also see how to figure the average net price by income, if the school provides that information. Please note: the listed net prices are averages only, and your family's net price may vary. However, this research will help you get a ballpark estimate.

3. Expected Family Contribution (EFC):

Depending on the age of your student, his/her dependency status, and your financial situation, your student's college will set an **Expected Family Contribution (EFC)** amount. This is an amount they expect the family (parents) to contribute and your student will not be able to get financial aid for the EFC amount. Your student will be able to obtain financial aid for the net amount minus the EFC, but

not the entire net amount. Parents can get student loans (Parent PLUS) for the EFC, if needed.

4. [State University/College:](#)

A higher education institution funded and run by a state government. Examples: University of Washington, Washington State University, and the Evergreen State College.

5. [In-state tuition:](#)

A heavily discounted tuition rate for students who meet certain residency requirements. The idea is taxes in that state were paid by the student/family so the rate is discounted.

6. [Out-of-state tuition:](#)

This is the non-discounted and often much more expensive tuition rate for students who are not residents of the state in which the college is located.

7. [Private non-profit college/university:](#)

A privately owned and operated higher education institution that uses funds entirely for school/curriculum purposes. Examples: Seattle University, University of Puget Sound, and Gonzaga University.

8. [For-profit college/school:](#)

A privately owned and operated higher education institution which makes money for its owners/shareholders. Example: University of Phoenix.

Generally, for an in-state student, the net price is lower at a state college/university than at a private college/university. However, sometimes due to grants and scholarships provided, the net price

can be lower at a private college. Apply to both and compare financial aid packages.

9. Living [on-campus, Off-campus, or off-campus with family](#)

These are three different living situations for higher education students. They are included here because living off-campus with family often provides significant savings. This is not always an option, as some schools require students to live on-campus for a certain period of time such as the first year, and of course, not all students attend a college close to home.

SOURCES TO PAY FOR HIGHER EDUCATION

School issued grants or scholarships

You can find clues about how much on average a school issues in grants or scholarships using the “Net Price” category on the College Navigator Website. (We further discuss this later in this step and in the resources section.) When the time comes, you should discuss these opportunities with the school’s Admissions and/or Financial Aid Office.

Private grants or scholarships

These are grants or scholarships offered independent of your higher education choice. You and your student should talk to your high school career counselor about these opportunities.

Family contributions

Expected Family Contribution (EFC, which was covered in the preceding section) is included with any other contribution a family makes from their savings and/or income.

Student contributions

What the student is able to contribute from their savings and/or income from a job or work study program. In 2017, Nerdwallet reported the average work study award was **\$2,300 per year**.

Student loans

If the above categories don't cover the cost of higher education and living expenses, student loans are another option.

According to a 2019 Lending Tree article, **69%** of students took out student loans in 2018. (<https://studentloanhero.com/student-loan-debt-statistics/>)

Student loans are paid back with interest. This is not a student loan guide, but there are important differences between private and federal student loans:

Private student loans

These are loans from a bank, credit union, or another private financial institution and are generally more expensive, have less friendly repayment plans, and are less consumer friendly than federal loans. Students/families utilize them to fill the gap if their own contributions and federal student loans cannot cover the entire cost.

Federal Student Loans

There are several types of federal student loans (Stafford, Perkins, Parent plus, etc.) Generally, federal student loans are less expensive (lower interest rates), offer friendlier repayment plans, and more consumer protections than private loans. However, it is important to note there are limits to the yearly amount of federal student loans a student can take out.

For first year dependent students, the loan limit as of June 2019 is \$5,500—no more than \$3,500 of which may be in subsidized loans. For first year independent students, the loan limit is \$9,500—no more than \$3,500 of which may be in subsidized loans. This limit is increased if the student's family (parents) takes out a federal loan (Parent PLUS loan). There are no specific caps on Parent PLUS loan borrowing; the maximum

amount of Parent PLUS loans you can take out is the school's cost of attendance minus other financial aid the family or student receives.
Source: U.S. Department of Education.

It is important to note, wiping away a federal or private student loan in bankruptcy is very difficult to do.

GETTING A BALLPARK ESTIMATE FOR HIGHER EDUCATION COSTS

Now we will examine figures from which you can get a ballpark estimate of your higher education expenses. The Activity will provide (1) the average cost of higher education in Washington, (2) the full sticker price and net price cost of every 4-year college in Washington, and (3) a tool for you to find more cost information about any college or community college, and most vocational/technical schools in the nation. Keep the thinking traps in mind as you advance. The Activity overviews strategies to reduce costs in the next step.

[Ballpark Estimate 1: The average cost of Washington colleges](#)

The average cost of Washington colleges and technical schools is listed below. This is the least precise method, but it gets you “in the vicinity of the ballpark,” so to speak. Remember, these are full sticker prices and these figures assume no scholarships, grants, or family support.

- **State college**
 - Tuition plus 9 months cost of living is \$24,000 a year.
- **Private college**
 - Tuition plus 9 months cost of living is \$62,000 a year.
- **Community college**
 - Tuition is \$4,000 a year.
- **Vocational/Technical school**
 - Costs vary from \$3,000 to \$25,000 for 1-2 year programs.

The state and private college examples assume that the student lives on campus, while the community college and vocational/technical school example assumes the student lives at home. Figures are for one year only.

Please note: these are current averages for 2019. Of course, further research will help you create a better estimate. The actual amounts may vary significantly.

[Ballpark Estimate 2: Full sticker and net price for every Washington 4-year college](#)

The total sticker price and average net price of every 4-year Washington college is listed in the Resource section on pages 3-5.

[Ballpark Estimate 3: Utilize the College Navigator website](#)

The College Navigator Tool can be used to find information about colleges, community colleges, and vocational/technical schools nationwide. The site has several categories of information about your student's higher education choice, including tuition and net price. It lists colleges, community colleges, and many vocational/technical schools across the United States. The College Navigator tool can be found here:

<http://nces.ed.gov/collegenavigator/>

Further instruction is provided in the Resource section on page 6.

EXERCISE: YOUR BALLPARK ESTIMATE OF THE COSTS

Using one of the methods from the prior section, what is your ballpark estimate of the total costs of your student's higher education?

List that amount here:

\$

Here's some things to know about your estimate:

Is it full sticker or net price? If it's full sticker price, keep in mind you may not have to pay that full amount. If it's the average net price, realize your actual cost may be more or less. Of course, also understand these figures are from 2019 and will vary by the time your student graduates.

Of the ballpark estimate you listed above, list an amount you'd like to save for your student here:

\$

For purposes of this exercise, list a number if you're unsure. You can always change it later. In the next step, you'll assess your financial situation to determine just how much you can save.

BACKING INTO A NUMBER

If you had trouble coming up with an expense for your student's higher education, here's another way to help you figure out your [higher education](#) savings plan. Examine your financial situation and see what you can save for your student's higher education based on that, regardless of the cost of college. That's called "backing into" the amount. Though not as methodical as estimating your student's education

"GET"

This is a good place to introduce the Guaranteed Education Tuition (GET) Program, a 529 prepaid tuition plan. GET guarantees your savings will keep pace with future in-state tuition. GET is further discussed in Step 4.

expenses and acting from there, backing into the amount can still help you take action. If your income level doesn't currently allow you to save, do what you can to improve your financial situation. The next step of this Activity will help you get there.

STEP 3: FIGURE OUT HOW MUCH YOU CAN SAVE

This step covers two ways to save: (1) cutting down higher education costs and (2) building up a savings account.

CUTTING DOWN COLLEGE COSTS

Here's good news: there are steps you can take to lower the cost of your student's higher education and minimize student loan debt. Most of these will take place when your student is older, but some you can take action on right away.

1. SAVE MONEY FOR YOUR STUDENT'S HIGHER EDUCATION BY USING A 529 SAVINGS PLAN.

Every dollar you save is a dollar you or your student won't have to borrow in student loan debt. With a 529 plan, your student can attend colleges nationwide and abroad on various educational expenses, while you enjoy significant tax benefits. For more on how a 529 Savings Plan works, see step 4.

2. WHEN THEY ARE OF WORKING AGE, ENCOURAGE YOUR STUDENT TO WORK SO THEY CAN SAVE MONEY FOR COLLEGE.

If your student gets a job, it may help you save money for their college education. You and your student can decide together if this approach works best for your family.

3. CONSIDER RUNNING START OR ADVANCED PLACEMENT CLASSES WHILE IN HIGH SCHOOL TO EARN COLLEGE CREDITS.

These are credits that go toward a college degree. These credits are often free or offered at a greatly reduced price.

4. PRIVATE SCHOOL ISN'T THE ONLY OPTION.

Your student should absolutely apply to their dream schools. But encourage them to also apply to more practical choices as well, in terms of both likelihood of admission, and affordability. Compare financial aid packages as an additional factor in the decision.

5. APPLY FOR GRANTS AND SCHOLARSHIPS.

Your student or you will not have to pay back grants or scholarships. Not all scholarships and grants are merit-based and millions of dollars' worth of grants do not get awarded every year due to a lack of applications.

6. DON'T BORROW MORE THAN YOU NEED TO.

The financial aid package you receive from the college will most likely offer more loans than you need. Run the numbers on how much your student really needs.

7. HAVE YOUR STUDENT GET AN ASSOCIATE'S DEGREE FROM A TWO-YEAR/COMMUNITY COLLEGE AND TRANSFER TO A FOUR-YEAR COLLEGE OR UNIVERSITY.

Of course, you want to make sure the credits transfer in advance.

8. TALK TO YOUR STUDENT ABOUT A GAP YEAR OR TWO.

Taking a year or two off before going to college to work and save money could be an option for a disciplined student.

9. YOUR STUDENT COULD ATTEND A COLLEGE WHERE THEY CAN LIVE WITH YOU OR ANOTHER FAMILY MEMBER.

According to the College Navigator website, a student would have saved over \$12,000 a year by living off campus with family while attending the University of Washington in 2018-19. Of course, some colleges require students to live on-campus for a certain amount of time, and not every family lives near a college.

10. EXPLORE EMPLOYER ASSISTANCE.

Working students can seek jobs from employers that provide financial assistance to employees for college. As one example, Starbucks provides its employees free tuition to Arizona State University's online programs. Check with the employer for the availability and qualifications for this type of assistance.

IMPACT OF REDUCING HIGHER EDUCATION COSTS

Reducing the cost of higher education can have a larger impact than the amount you save.

Let's assume the student has to take out student loans for each scenario below. Then, let's flash-forward to when the student graduates and has to repay the loan. This will illustrate the impact reducing higher education costs can have.

Scenario 1:

For example, let's say the full sticker price of a college is \$106,000. That's for 4 years of tuition, school expenses, and living expenses.

Remember, full sticker price means no grants or scholarships.

In the first scenario, to pay off \$106,000 in student loans in a Standard 10-year Repayment Plan, the student's monthly payment will be \$1,154 a month. The 10-year total to pay off the loan will be \$138,540 with \$32,160 paid in interest.

Scenario 2:

For the second scenario, with the help of grants and scholarship, the net price of that college goes down and the total cost of the college is reduced to \$79,000. That's a 25% reduction from the total sticker price of \$106,000.

In the second scenario, to pay off \$79,000 in student loans on a 10-year Standard Repayment Plan, the student's monthly payment will be \$865 a month. The total to pay off the loan will be \$103,905 with \$24,120 paid in interest.

In the third scenario, to pay off \$53,000 in student loans on a 10-year Standard Repayment plan, the student's monthly payment will be \$563 a month. The total to pay off the loan will be \$67,613 with \$14,613 paid in interest.

Scenario 3:

For the third scenario, let's say the family's savings can cut down another 25%, or \$26,000, to bring the total cost of the college down to \$53,000.

As you can see, by reducing the amount the student has to borrow, the student achieves significant savings in the amount they borrow and the total cost to pay it back. So, review the Activity's strategies to cut down costs and see which ones are right for you.

BUILDING UP YOUR SAVINGS ACCOUNT

Now, let's cover the second way to save: building up your savings account. First, the Activity will help you determine how much you can save and then it will discuss an excellent savings program to utilize to build up your college savings.

ASSESSING YOUR SITUATION

Assess your financial situation and evaluate your options. Remember, any amount you are able to save for your student's higher education will help, even if it's not the entire amount. After this process, the goal will be for you to come up with a monthly or yearly savings amount to reach your goal. If you are currently unable to save for your student's education, this activity will help you make improvements to your financial situation and/or help your student cut down on the cost of higher education.

⇒ **Balance Sheet**

In a **Balance Sheet**, you compare your assets to your debts, also called liabilities. It's a very helpful snapshot of your financial situation.

FILLING OUT YOUR BALANCE SHEET

Please fill out the Balance Sheet on page 8 of the Resource section to determine your assets, debts (liabilities), and financial net worth, which is the amount left over after your debts have been subtracted from your assets. Further instructions are included with the Balance Sheet. [Return here after you've filled out the Balance Sheet.](#)

BALANCE SHEET RESULTS

After using the Balance Sheet to list your assets, you'll be able to determine if you have some assets you can use to jumpstart your college savings. Your debt list will help you determine if there are any troubling high interest debts to focus on. Your net worth is a quick reference to see how your assets compare with your debts. This process can be used to provide insight & motivation to build up assets and/or reduce debts.

⇒ **Budget Sheet**

A **Budget Sheet** is another snapshot of your financial situation. Compare the money you make (your income) with the money you spend (your expenses). It's a simple equation: Income minus expenses within a finite period of time.

Budgets can be stated in various time periods: yearly, quarterly, monthly, or even weekly or daily. We've included a monthly budget template for you because it's a practical way to look at your finances and it's also how most bills tend to cycle (rent, cell phone, cable, etc.).

FILLING OUT YOUR BUDGET SHEET

Please fill out the Budget Sheet on page 11 of the Resource section to determine your monthly net income, monthly expenses, and the difference between the two. Further instructions are included in the Resource section. [Return to this section after you've filled out Columns 1-3 in the Budget Sheet. \(Column 4 will be completed later\).](#)

BUDGET SHEET RESULTS

This exercise is another tool to provide insight into your financial situation. You identified your monthly net income. You listed your monthly expense categories and how much you spend per month in each category. By adding up the amounts in each category, you calculated how much you spend every month. You compared your monthly net income to your monthly expense total to figure out if you had a surplus, deficit, or balanced budget. This is all very helpful information and it will assist you in the next section. If your Balance and/or Budget Sheet are not where you want them to be, that's ok. Utilize this information to improve your financial situation.

**Write your surplus, deficit, or
zero for a balanced budget:**

GOAL SETTING WITHIN YOUR FINANCIAL SITUATION

If you have never written a Balance or Budget Sheet or haven't looked at them recently, you now have insight into your financial situation. Utilize that insight to make a positive change.

Approach 1

Determine a monthly amount that works within your budget and make it a goal to save that amount every month. You can count the months until your student graduates* and calculate how much you'll build up your savings during that time. For those who are paid bonuses or other periodic payments, you can make a yearly goal.

Example 1:

Jon and Beth can save \$100 a month. That's \$1,200 per year. Their student graduates in 10 years so they'll have \$12,000 saved by that time if they stick with their plan.

**Remember, you can continue to save and contribute to your student's education while they pursue their higher education. For a bachelor's degree, that's typically four additional years.*

Approach 2

You can set a goal for the total amount you will save for your student's education. Then you figure out how many months you have to save that amount and how much you'll need to save every month to reach the total amount you want to accumulate.

Example 2:

Maria and Ed want to save \$20,000 for their student. They have 5 years to do it. $12 \text{ months} \times 5 \text{ years} = 60 \text{ months}$. $\$20,000 \text{ divided by } 60 \text{ equals } \333.33 . So, to reach \$20,000 saved in 5 years (or 60 months), Maria and Ed should save \$333 a month.

The important part with either approach is that you set a goal and stick to it.

WHAT IF THERE'S NO ROOM IN THE BUDGET FOR COLLEGE SAVINGS?

Not everyone will be able to put money away for higher education savings, and that's ok. This Activity can still be impactful for your student and you. The next section provides some concrete steps and troubleshooting to help you improve your financial situation.

WHAT DO YOU WANT TO IMPROVE?

Take a look at your Balance Sheet and Budget Sheet and note what you'd like to improve. If there are several things and that is a source of stress, choose your most important one. If it's too overwhelming choosing between several choices, just target one thing you want to improve.

List what you want to improve on your Balance Sheet:

List what you want to improve on your Budget Sheet:

WHAT CAN YOU IMPROVE?

EXPENSES

1. First, take a hard look at all of your expenses and determine which ones you can eliminate or reduce.
2. Distinguish between needs and wants.
3. Look for spending leaks. For example, a \$20 dinner every night adds up to \$600 a month or \$7,400 a year. This will help you get “penny wise”.
4. Be mindful of spending rationalizations. That’s a budget thinking trap.
5. Examine your top 3-5 expenses and see where most of your money is going. Being “dollar wise” is more important than being “penny wise”. In other words, don’t just overly budget the small expenses in life, only to overspend on the large expenses.

INCOME: THE OTHER SIDE OF THE BUDGET EQUATION

Reducing expenses is only one side of the budget equation. Are there ways you can increase your income and use some of the increased income for your college savings and/or other goals? Look for opportunities to increase your income by moving to a better paying job, taking on a second job, or working some overtime. Of course, these options are easier said than done, but do some strategizing to see whether increasing your income is possible.

A NOTE ABOUT MONEY MANAGEMENT

Money management and financial planning should not be about feeling guilty every time you spend money. The first goal of money management is to make sure you don’t spend more than you make. When you spend more than you make, it can lead to using a high-interest mode of credit, like a credit card or payday loan, which creates debt.

The second goal of money management is for you to achieve a healthy balance between your needs, wants, and savings. If you’re spending too much on your wants, you probably won’t be able to save and you may

not be able to cover your needs. If you're spending too much on your needs, this will result in less money for wants and, most likely, no money for savings.

FINANCIAL SITUATIONS AND EMERGENCIES

Difficult life situations can prevent people from achieving financial balance between needs, wants, and savings. Perhaps this is a job loss, underemployment, a medical emergency, a death in the family, or divorce. If you are in such a situation, try to weather the storm by cutting expenses and trying to increase income. Avoid making the situation worse by taking on credit card, payday loan, or other costly consumer debt. If you feel as if you are drowning in debt, you may want to consult with a debtor attorney to learn about your options.

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| S | <p>Specific</p> <p>“I will save \$100/month” is better than “I will save a lot.”</p> |
| M | <p>Measurable</p> <p>Pick something that is measurable.</p> |
| A | <p>Achievable</p> <p>This is related to Measurable. If you pick something measurable, it will be achievable.</p> |
| R | <p>Realistic</p> <p>You want to make sure it’s realistic so you can achieve it.</p> |
| T | <p>Time-bound</p> <p>Put it on a timeline so you can measure progress, assess whether you met the goal, and make adjustments if you did not.</p> |

SMART GOALS

Take the College Savings amounts you listed earlier and the Balance/Budget Sheet improvements and run them through the **SMART** goal process to make sure you are making strong goals.

GOAL EXAMPLES:

Example 1:

Maria and Ed's goal is to save \$333 a month for their student's higher education savings for 5 years (60 months).

Example 2:

Jon and Beth's goal is to pay off \$1,500 in credit card debt in 4 months.

STEP-BY-STEP

Try not to become frustrated if you can't achieve all the improvements you want to make at once. Everyone has financial limitations. Reaching your money management goals can be a slow process. Advance step-by-step and focus on your highest priorities first.

BUDGETING SECOND TRY

[Return](#) to the Budget Sheet on page 11 of the Resources section. You'll notice column 4 on the Budget Sheet is for "Second Try" numbers. [Fill in](#) category 4 with new amounts so you can meet your college savings goal or money management improvement goal. Remember, it's important to have **achievable** goals, so keep that in mind as you fill out your Second Try numbers.

Example 1:

Remember Maria and Ed's goal to save \$333 a month for their student's higher education savings? They will do this by cutting down \$100 a month on entertainment, dinners out, and shopping, and \$33 a month on groceries.

Example 2:

Remember Jon and Beth's goal to pay off \$1,500 in credit card debt within 4 months? In their monthly budget, they cut down groceries by a \$50, dining out by \$100, entertainment by \$150, and shopping by \$200 so they can pay it off in 3-4 months. Once they pay off the credit card debt, they'll put the \$500 a month into savings.

A NOTE ABOUT FUTURE PROJECTIONS FOR YOUR FINANCIAL SITUATION

We've discussed eliminating or reducing expenses and transferring the amount you are able to cut down to your higher education savings and/or another financial goal. We've also pointed out that increasing income is another way to reach a goal.

You may not be able to increase your income immediately, but it may increase over time. Be prepared for increases in income and be intentional about how you'll utilize them. This is another opportunity to set aside more higher education savings money for your student.

- 1. Consider putting at least a portion of your raises into higher education savings.*
- 2. Consider putting at least a portion of any bonuses into higher education savings.*
- 3. If you are fortunate enough to receive an inheritance or large gift, consider putting at least a portion of it into higher education savings.*

Of course, you don't want to count on an increase in income, but you want to have a plan to intentionally use the increase if it comes.

STEP 4: START SAVING MONEY

YOUR HIGHER EDUCATION SAVINGS GOAL

Now that you have a higher education savings goal, let's discuss options for where to save and/or invest your funds. This information in this section was developed by WSAC and WA529.

529 PLAN: A GREAT TOOL FOR SAVING FOR HIGHER EDUCATION



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| Q: | What is a 529 Plan? |
| A: | ⇒ A 529 plan is a tax-advantaged investment plan typically sponsored by a state and designed to help families save for a beneficiary's (typically one's child or grandchild) future education. The savings in a 529 plan grow free from federal income tax. Withdrawals are also tax-free, as long as the funds are used for qualified education expenses. Almost every state has at least one 529 plan. |

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| Q: | What type of 529 plans does Washington offer? |
| A: | <p>⇒ The Guaranteed Education Tuition (GET) Program is Washington's 529 Prepaid Tuition Plan. GET guarantees your savings will keep pace with the highest priced Washington public institution although a student may choose to attend a college, university or trade school anywhere in the U.S. and abroad. GET offers flexible ways to contribute including payroll deduction and gifts from family and friends.</p> <p>⇒ The DreamAhead 529 College Investment Plan (DreamAhead) works much like a Roth 401(k) or Roth IRA. You invest your after-tax contributions in mutual funds or similar investments. DreamAhead offers several investment options from which to choose. The 529 plan account balance will increase or decrease in value based on the market performance of the investment options.</p> |

GUARANTEED EDUCATION TUITION 529 PREPAID TUITION PROGRAM (“GET”)



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| Q: | How does GET work? |
| A: | <p>⇒ GET works on a unit system where 100 units represents one year of resident undergraduate in-state tuition and state mandated fees. The earlier you start contributing, the more time you have to accumulate units. The State of Washington guarantees that 100 units will always be redeemable at the value of one year of resident, undergraduate ins-state tuition and state-mandated fees of the highest priced Washington public university. Individual units are valued at 1/100th of that cost, and the cost and payout amounts are adjusted annually. You can buy units in whole or partial amounts, from one to 800 units per student.</p> |
| Q: | Will my GET savings go up and down with the stock market? |
| A: | <p>⇒ Your savings are not subject to the ups and downs of the stock market. Your GET account is guaranteed to keep pace with tuition and state-mandated fees at Washington’s highest priced public university. The state guarantee is backed by the full faith and credit of the State of Washington. That means if future tuition increases ever require the program to pay out more money than it has available, the Legislature would be required by state law to provide funding to cover the shortfall. Washington's GET Program is one of only a few</p> |

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| | state prepaid college tuition plans in the country with a guarantee in state law (RCW 28B.95.050). |
| Q: | Can I use the GET units for a higher education institution of my choice? |
| A: | ⇒ Yes! The value of each GET unit is tied to the cost of resident, undergraduate tuition and state-mandated fees at Washington's most expensive public university, but you can use your units to pay college costs practically anywhere in the country and even at schools around the world. Your GET account has the same monetary value whether your child attends a public university, a local community college or technical school, a private university, or a college in another state. If your student chooses to attend a less-expensive school or university, the units in your GET account will go further than if they choose the most expensive public university or a private school. |
| Q: | Are savings and withdrawals taxed? |
| A: | ⇒ No. Because GET is a state 529 plan, the after-tax money you put in will grow tax-free. And when your child is ready for college, the money you withdraw will also be untaxed, as long as you use it for qualified higher education expenses |
| Q: | Can GET units be used for school expenses other than tuition? |
| A: | ⇒ Yes! You can use your GET savings for tuition, fees, room and board, books, computers, and other qualified expenses. If your child chooses not to go to college or receives a scholarship, you can transfer your |

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| | <p>account to another family member, hold onto your account for a change of plans, save it for graduate school, or even request a refund. And, unlike some other savings options, you, as the account owner, maintain complete control over the account and how the distributions are used.</p> |
| Q: | Are there multiple ways to contribute to the account? |
| A: | <p>⇒ You can buy units up front in one lump sum, add funds whenever you have extra money to contribute, set up a monthly payment plan, or choose a combination of methods. You decide how much and how often to save. If your needs or finances change, you can adjust your plan. You can open an account for anyone – your child, grandchild, friend or even yourself. The only requirement is that either the account owner or the student is a Washington resident when you enroll in the program.</p> |
| Q: | How do I enroll or find out more about the GET program? |
| A: | <p>⇒ Go to: www.get.wa.gov ⇒ 800-955-2318</p> |

DREAMAHEAD 529 COLLEGE INVESTMENT PLAN (“DREAMAHEAD”)



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| Q: | How does DreamAhead work? |
| A: | ⇒ The DreamAhead College Investment Plan is a 529 plan created by the state of Washington to help families save for higher education expenses. Accounts can be easily managed online and used to pay for qualified higher education expenses at eligible schools in the U.S. and abroad. DreamAhead provides a wide range of investment options and tools to help you save with the support of friends and family through gift contributions. |
| Q: | What are the state and federal tax advantages? |
| A: | ⇒ The money in a DreamAhead account grows tax-exempt and withdrawals are exempt from federal taxes when used for qualified expenses. There are no state tax benefits in the state of Washington. |
| Q: | Who is the plan manager for the DreamAhead? |
| A: | ⇒ Sundry Administration is the plan manager for the DreamAhead College Investment Plan. It provides investment management services, recordkeeping, online investing platform, and U.S.-based customer service. Sundry is owned by BNY Mellon, one of |

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| | the world's largest financial institutions; its core mission is to improve lives through investing. |
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| Q: | What kind of investment choices do I have? |
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| A: | <p>⇒ Year of Enrollment Portfolios These types of portfolios use the expected date the beneficiary will enroll in school (when they will start needing the money) to automatically adjust allocations over time so you don't have to lift a finger. Each Year of Enrollment Portfolio is tailored to your risk tolerance: Conservative, Moderate or Growth.</p> <p>⇒ Static Portfolios These types of portfolios allow you to invest based on your risk tolerance. Your options include: Cash Preservation, Income, Growth & Income, Balanced, Conservative Growth, Moderate Growth, and Growth Portfolios. Static Portfolios don't adjust allocations on their own.</p> |
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| Q: | How do I find out more information about the DreamAhead Plan? |
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| A: | <p>⇒ Go to: www.dreamahead.wa.gov</p> <p>⇒ 1-844-529-5845</p> |
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STEP 5: CHECKING IN WITH YOUR SITUATION AND SAVINGS

TRACKING YOUR FINANCES

If you set a goal to improve your financial situation and/or establish a budget, you have to make sure you to stick to it. Track your expenses by amount and budget category so you can compare what you actually spent with what you budgeted.

It's recommended that you also keep track of the money you are saving for your student's higher education.

We include more information on tracking your expenses on page 15 of the Resource section.

PERIODICALLY REASSESS YOUR FINANCIAL SITUATION

Set a date to reassess your savings plan, your Balance Sheet, and your Budget Sheet. You may discover your situation has changed, and it may benefit you to make adjustments.

ADJUSTING YOUR PLAN

If your financial situation improves due to a raise, a bonus, an inheritance or gift, or some other financial windfall, consider adjusting your plan and adding to your higher education savings.

On the other hand, there may be times when "life happens" and you have to scale back from your savings goal. Do what you can to save money while you're able. If you run into a financial challenge, do your best to stay "above water", and pick up the plan after you've overcome it.

WORKING AS A TEAM

You may choose to involve the whole family in the plan by introducing age-appropriate lessons to help them understand the sacrifices you are making for the future.

YOUNGER CHILDREN:

- You can show them things cost money and there are limits.
- A piggy bank or savings jar can be a good tool for them to see savings grow.
- Start modeling good financial decision making and talk about money and finances.

ELEMENTARY AND MIDDLE SCHOOLERS:

- You can talk about opportunity cost. If they buy the new jacket, they can't get the new video game. If your student earns an allowance, you can talk to them about how they spend it.
- You can show them the power of savings by offering to match it if they save a specified amount.

TEENAGERS:

- You can talk to them about saving for college and how they can contribute, even if it's just helping you spend less.
- They can get on a simple budget and open up a bank account.
- Perhaps they can even start earning some money with a job.
- You can help them take on problem-solving mindsets and avoid or overcome thinking traps.
- You can show them the negative and positive aspects of compound interest. How it works against you with debt, but how it benefits you in saving and investing, with the greatest benefit to those who start early.

As far as sticking to your college savings plan and/or monthly budget, you can discuss the goals with your family and the limits you need to set in other areas to reach those goals.

You can involve your extended family in your plan by letting them know how they can contribute, if they are able to. They can also start their own 529 Plan account for your student.

EVERY BIT HELPS

We hope this **Planning for Higher Education for Families Activity** is informative and helps further your plan to save for your student's higher education. We hope by looking at your financial situation, you are able to determine what you can do to help plan for your student's higher education. For those who are able, this might mean setting a savings goal and moving forward on it. For others, it might take the form of showing your student how to cut down on college expenses and helping them be wise about how they finance their higher education. Of course, assisting your student with the financial aspect of it is just one piece. Your work in nurturing, encouraging, and supporting your student is vital. Do what you can to help put your student in a position to succeed and flourish. **Every bit helps!**