

How to Pay for Your Children's College (Without Putting Your Retirement at Risk)

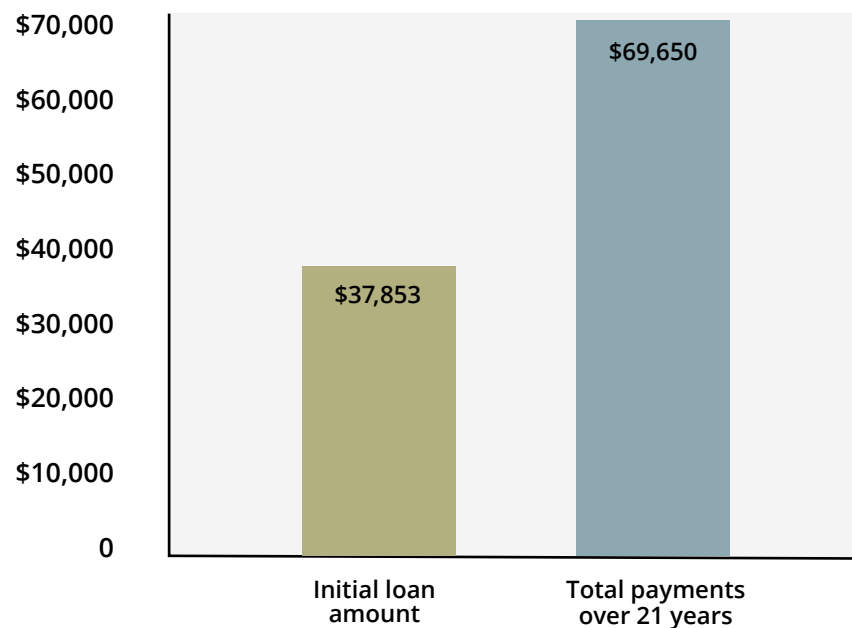
A Practical Approach to College Funding and Retirement Planning for High-Income Families



For decades, the cost of a college education has increased at **twice the speed of inflation**, far outpacing other expenses. The numbers facing students (and, in many cases, their parents) in 2024 are staggeringly higher for the vast majority of Americans:

- **Average student loan debt:** \$37,853
- **Average length of time it takes to pay off student loans:** 21 years
- **Estimated average monthly student loan payment:** \$500
- **Average interest rate on student loans:** 6.53%

Let's put these numbers in perspective: If it took you 21 years to pay off \$37,853 in student loans at a rate of 6.53%, you could end up paying more than \$30,000 of interest on top of your original loan balance.



In summary: College is expensive and can leave graduates with a pricey monkey on their backs well into their professional lives. This financial burden puts immense pressure on parents to help their children pay for college while ensuring their own financial security, both now and in retirement.

And to further complicate the situation, you can hardly rely on your own personal experience as a student in a university. Financial aid processes, savings vehicles, and costs have all changed since you went to college – including many changes even within recent years.

Even if you are considered affluent by society's standards today, you cannot approach education funding for your children without a serious plan. Doing so raises the likelihood of making an error that reverberates throughout your financial life, or even worse, negatively impacts your relationship with your child. **So how can you help your child get through college, without sacrificing your retirement, and keep everyone happy in the process?**

In this guide, we will explore practical tips and actionable strategies you can use to balance critical financial priorities and make informed decisions that benefit your entire family.

Setting the Foundation

What Every Parent Should Know About Paying for College

The first thing to know about education expenses is that although college is undoubtedly expensive, the “sticker price” doesn’t always reflect the actual cost your family will pay.

Every school in the country factors in your **Student Aid Index (SAI)**, which was previously known as your “Expected Family Contribution” (EFC) – when determining how much financial aid your student will receive via the **Free Application for Federal Student Aid (FAFSA)**.

Many high-income families assume the FAFSA is irrelevant for them, as they won’t qualify for aid. However, even if your family doesn’t qualify for need-based aid, colleges use FAFSA data to assess eligibility for merit-based scholarships, which can significantly reduce out-of-pocket expenses. Additionally, federal student loans (which often have lower interest rates and more flexible repayment options than private loans), require a completed FAFSA.

Your SAI is calculated using the student and parents’ income data from two years prior and current asset data, which you report on your FAFSA. For this reason, it’s important that you reapply every year while your child is in college. A new FAFSA form is released every year on October 1, and it’s best if you fill it out as soon as possible, so that you can apply for financial aid sooner.

So, for example, if you filled out the FAFSA for the 2024-2025 school year, it would use income information for you and your child from 2022. Then when you reapplied in 2025, it would use income info from 2023.

The four factors that determine your SAI are:

- Parental assets
- Parental income
- Student assets
- Student income



Explore More: Five Ways To Make College More Affordable

Student Aid Index (SAI) Calculations for 2024-2025

Category	Deductions	Contribution Rate
Parental Assets	<ul style="list-style-type: none"> Asset Protection Allowance (varies by age of the older parent) Education savings plans (e.g., 529 plans) reported as parental assets with adjusted treatment 	<ul style="list-style-type: none"> 5.64% of assets after allowances 12% of assets without allowances
Student Assets	<ul style="list-style-type: none"> No asset protection allowance 	<ul style="list-style-type: none"> 20% of assets
Parental Income	<ul style="list-style-type: none"> Income Protection Allowance (varies by family size and number in college) Federal, state, and local taxes Social Security Employment expenses for working parents 	<ul style="list-style-type: none"> 22% to 47% of adjusted available income after allowances
Student Income	<ul style="list-style-type: none"> Income Protection Allowance (around \$9,410 for 2024-2025) Federal, state, and local taxes 	<ul style="list-style-type: none"> 50% of income after allowances

As you can see, income has a much higher impact than assets, and the student’s contributions are weighed more heavily than the parents. If your income is high and you live in a more expensive part of the country, such as California, you should expect your contribution as parents to be a substantial portion of your income.

Note: There are several online calculators you can use to estimate your SAI for the upcoming year, such as the [Federal Student Aid Estimator](#) provided by the U.S. Department of Education.

With this starting point in mind, high-income families should consider strategies to minimize their reportable income and assets in the years leading up to and during their child’s college years. For example, reducing income through tax-efficient investments or deferring bonuses could lower your SAI, potentially increasing your child’s eligibility for aid (more on this later).

2024 - 2025 SAI Chart

AGI	1 Dependent	2 Dependent	3 Dependent	4 Dependent
\$150,000	\$32,356	\$29,146	\$26,114	\$22,740
\$160,000	\$35,662	\$32,452	\$29,421	\$26,046
\$170,000	\$38,969	\$35,759	\$32,727	\$29,353
\$180,000	\$42,258	\$39,048	\$36,016	\$32,642
\$190,000	\$45,470	\$42,260	\$39,229	\$35,854
\$200,000	\$48,683	\$45,473	\$42,441	\$39,067
\$210,000	\$51,895	\$48,685	\$45,654	\$42,279
\$220,000	\$55,108	\$51,898	\$48,866	\$45,492
\$230,000	\$58,320	\$55,110	\$52,079	\$48,708
\$240,000	\$61,533	\$58,323	\$55,291	\$51,196
\$250,000	\$64,745	\$61,535	\$58,503	\$55,129
\$275,000	\$72,776	\$69,566	\$66,535	\$63,160
\$300,000	\$80,982	\$77,772	\$74,741	\$71,366

Once a college knows your SAI, they will subtract it from the total cost of attending their institution in order to determine your calculated financial need, which they can then help offset with grants, scholarships, subsidized loans, work-study programs and other sources of financial aid.

But even with all of the ways a university can pitch in to help cover the costs of attendance, the lion's share of the cost will likely fall to you, especially if your income is higher, and thus do not qualify for as much aid.

However, if you remain concerned about the affordability of college, don't fret. There are other ways to keep costs down and make your child's education more affordable.

Savings Vehicles

Planning Ahead with 529 Plans, Coverdell ESAs, and More

When planning for your child's education, it's important to know that several tax-advantaged savings vehicles can help mitigate the costs.

This recommendation requires you to take action early on in your child's life, but there are tax-advantaged savings vehicles that can be helpful in your journey to covering education costs.

529 plans have evolved in recent years, particularly with the passage of the **Secure 2.0 Act**. Notably, you now have the option to roll over up to \$35,000 of unused 529 funds into a Roth IRA for your child, tax- and penalty-free, provided the 529 account has been open for at least 15 years. A financial advisor can help you explore whether any combination of the above is a good fit for your family.

<p>529 Plans</p> <p>These state-sponsored savings plans offer significant tax advantages, including tax-free growth and tax-free withdrawals for qualified education expenses. In addition, there are no annual contribution limits to 529s, and many states offer tax deductions or credits for contributions to a 529 plan, providing further incentive to save.</p>	<p>Coverdell ESAs</p> <p>Coverdell Education Savings Accounts (ESAs) allow for tax-free growth and withdrawals for educational expenses, though contributions are typically limited to <u>\$2,000 per year</u>.</p>	<p>Brokerage Accounts</p> <p>Traditional brokerage accounts may also be useful for your college savings fund as they provide the flexibility to invest in a wide range of assets. However, note that withdrawals are subject to capital gains taxes, and gains are counted as income on the FAFSA.</p>
---	---	---

Personal Considerations When Choosing a College

College planning includes more than just crunching the numbers; you and your child should also consider the academic programs available, location, and campus culture when deciding which college to attend. A college's reputation can impact job prospects, earning potential, and future opportunities after graduation.



*Explore More: Why College Planning
Is a Core Part of Any Financial Plan*

On the other hand, it's essential to reflect on how societal expectations and personal biases influence your decision-making. For instance, the desire to attend a prestigious university may lead to higher costs and increased debt, **without necessarily providing a better return on investment**. Balancing these factors can help you make a choice that aligns with your financial goals while still providing your child with a valuable education.

1

Pick a school that costs less

It may seem painfully obvious, but choosing a less expensive school (regarding both tuition and living costs) is one of the most effective ways to reduce the overall cost of college.

In-state public four-year universities for students living on-campus cost **\$27,146 on average per year**, while private, non-profit four-year universities cost an average of \$58,628 per year for students living on campus. Out-of-state tuition can raise these prices even higher.

In-state Public University Cost

\$27,146
x 4

\$108,584

Private University Cost

\$58,628
x 4

\$234,512

This doesn't mean your child has to attend a local community college; instead, carefully compare tuition rates to find a more affordable school that still offers a strong academic program. Rather than compromising on the quality of your child's education, carefully compare tuition rates, fees, and other associated costs to find a school that provides a strong academic program at a more affordable price.

Note: [Collegedata.com](https://collegedata.com) is one option where you can compare schools when deciding which one makes the most sense to attend.

2

Get familiar with your financial aid options

The most important thing to understand about college costs is that the listed cost is often not the amount you will actually have to pay.

Colleges and universities typically offer various forms of financial aid to help offset these costs, primarily in the form of need-based and merit-based aid. Need-based aid is determined by your family's financial situation – which often disqualifies high-income earners – while merit-based aid is awarded based on a student's academic, athletic, or extracurricular achievements (usually regardless of financial need). Both types of aid can drastically reduce the price of your child's education.

For example, for the 2024-2025 academic year, **the average cost of attendance at Stanford** is \$92,892. However, Stanford also **reports that**:

“The average amount of Scholarship and Grant from all sources received by need-based aid recipients in the current freshman class is \$70,349. This includes \$62,898 average scholarship from Stanford as well as grant funds received from federal, state and private resources.”



That would leave the actual price closer to \$22,500 for students that received need-based aid. Over at UC Berkeley, total cost of attendance for students living on campus is **\$49,468**, with an average aid package of **\$31,559**, leaving students and parents with a bill of around \$18,000 per year. The type and average amount of aid can vary widely between schools – for instance, Berkeley tends to give more merit-based aid, while Stanford gives more need-based aid in the “selfhelp” category.

You can also try negotiating costs with the college to increase your financial aid package. Many colleges are willing to adjust their offers if you provide documentation of a change in your financial situation or if you've received a better offer from a comparable institution. Don't be afraid to advocate for yourself; every dollar you save is one less that you'll need to borrow.

3

Apply for merit-based scholarships

Every school has their own merit aid program comprised of scholarship, grants, and other financial assistance that does not need to be repaid. You can search websites like collegedata.com, scholarship.com, and the [BigFuture site](#) to get an idea of how much merit aid a school typically offers and browse scholarship opportunities.

In addition to a school's merit aid, make sure you explore every avenue for private scholarships. Numerous organizations offer private scholarships for a variety of reasons, whether it's where you live, the industry you want to enter, or a combination of factors.

One thing to keep in mind here is that the competition for private scholarships – especially the largest ones – can be fierce. Find a specific niche that will be less competitive so you can have a higher chance of qualifying. Encourage your child to apply for as many scholarships as they can; even the smaller ones can add up if you are awarded enough of them.



4

Lower your income

While it may seem counterintuitive, lowering your income in the years leading up to your child's college application can have a significant impact on their eligibility for financial aid.

Reducing your income is not an easy thing to do for salaried employees, but here are a few possibilities to consider during your child's sophomore year of high school (remember, SAI is calculated based on income from two years prior):

- Take a sabbatical during your child's sophomore year.
- Inquire about a deferred salary program at your company.
- Find out if you can defer any bonuses until the following year.
- Contribute the maximum pre-tax amount to your employer retirement plan (401(k) or 403(b)).
 - *Note that recent legislative changes have impacted how FAFSA treats 401(k) contributions.*
- Pay more federal taxes by taking fewer itemized deductions.

Avoid creating unnecessary income by avoiding the following:

- Exercising non-qualified stock options.
- Selling investments with large capital gains.
- Making withdrawals from your IRA or 401(k) accounts.

Get rid of student assets (which are assessed at a much higher – 20% – rate than parental assets) by depleting accounts in your student's name before filling out the FAFSA (including joint accounts).

A financial advisor can help you assess where you may be able to reduce income or assets to increase your total financial aid package.



5

Borrow wisely

More than half of all college students **take out student loans**, so if you need to do so, know that you are far from being alone. But before you apply for one, there are a few key considerations you should know about the four types of student loans.

Several types of loans are available, each with its own terms, interest rates, and repayment options. **Federal student loans**, such as Direct Subsidized and Unsubsidized Loans, generally offer lower interest rates and more flexible repayment options compared to private loans. They also come with protections such as income-driven repayment plans and the potential for loan forgiveness.

Direct PLUS loans for parents often come with higher interest rates and require a credit check, and payments can be deferred until after your child graduates.

Subsidized Federal Loans	<ul style="list-style-type: none">• No interest while in school• Based on financial need• Annual borrowing limit: \$23,000 over 4 years
Unsubsidized Federal Loans	<ul style="list-style-type: none">• Interest charged while still in school• No payments required until 6 months after leaving school• Not based on financial need• Annual borrowing limit: \$31,000 over 4 years
PLUS Loans for Parents	<ul style="list-style-type: none">• Higher interest rates, credit check required• Payments can be deferred while child is in school
Private Loans	<ul style="list-style-type: none">• Offered through your bank or lending institution• Interest rates and payment terms depend on lender• Credit check required• Fewer deferment or reduced payment options

Here's what all of this means:

If you have access to subsidized federal loans, take those first. If you have a high SAI, your access to subsidized loans will be severely limited as they are based on financial need.

If you still have need after taking subsidized loans, then it's time to turn to unsubsidized loans. These are often the best option for families with high SAI as they offer the lowest interest rates and most lenient payment terms.

Tools like the [Loan Simulator on the Federal Student Aid website](#) can help you estimate monthly payments and compare different loan options.

6

Consider your child's debt vs. income potential

When considering how much to spend on college and how much you should borrow, there's one big question that can help guide your thinking:



How much money will my student make in one year of their desired career after graduating?

A quick internet search will help you find the average starting salary for pretty much any job. A good rule of thumb is to limit your borrowing to no more than one year's salary for a new hire. Here are a few examples from the **National Association of Colleges and Employers**:

Major (broad category)	2024 starting salary projections	Change from 2023 salary projections
Engineering	\$76,736	3.1%
Computer sciences	\$74,778	2.7%
Math and sciences	\$71,076	5.8%
Social sciences	\$69,802	16.1%
Humanities	\$68,227	28.9%
Business	\$63,907	3.0%
Communications	\$62,205	7.1%
Agriculture and natural resources	\$61,399	3.6%

For example, if your student wants to go into the Humanities, then divide the first year salary of \$68,227 by four to find that your borrowing should stay below \$17,057 each year.

Notice that this table is missing some of the most high-paying careers out there: medicine and law. If your student is on a pre-med or pre-law track, they may have a higher starting salary, but it's important to still keep this rule in mind. Law or medical students often have the most severe student loan burdens with hundreds of thousands of dollars in debt – so much that even with their high salary, it's still too much to pay off decades down the line.

7

Talk openly with your child

After you do all this research, if the cost of the school at the top of your child's list is still too much to budget for confidently, then it's time to make some difficult decisions. Help your child understand the situation and then help them find a less expensive school to attend.

If their college costs will likely surpass your budget, consider having a transparent conversation with your child about what you can afford to contribute and what they will be responsible for contributing. Setting clear expectations early on can prevent misunderstandings and help your child make more informed decisions about their education.

This is a good time to discuss potential part-time work during school, living at home to save on housing costs, and the long-term consequences of debt on their future finances.

8

Explore fast-track degree options

Many colleges offer accelerated programs that allow students to complete a bachelor's degree in less time than the traditional four years – which could significantly lower your total cost.

Keep in mind that these fast-track options often involve taking a heavier course load and/or enrolling in summer sessions, which can put a strain on your child. While these programs can save money on tuition and get your child into the workforce sooner, they require careful planning and a strong commitment from the student. Be sure to weigh the potential cost savings against the demands of an accelerated program to decide whether or not it's the right fit for your child.

If you still have a few years before college kicks off, consider if your child could earn college credits while still in high school through Advanced Placement (AP) courses or dual enrollment programs – 88% of all students at public high schools have access to **at least one AP course!**

9

Reduce living expenses

A large portion of college costs extend beyond tuition and books – your child will also need housing, meals, and transportation. There are a few ways you can potentially reduce these living costs to save money and lower student loan debt:

Live at home

While it may not allow the same level of independence as campus life, living at home eliminates the need for paying rent and utility bills (unless you decide your child needs to pitch in and share in the expenses).

Live with roommates

If living at home isn't an option, consider having your child share an apartment or house with roommates. Splitting the cost of rent, utilities, and even groceries can dramatically lower their monthly living expenses.

Research costs of living

Before making a decision, **research the average rent, utility costs, and general living expenses** in the area. By choosing a school in a more affordable location, your child can reduce their overall living expenses.

Pass on the meal plan

Instead of purchasing a full meal plan, consider more flexible options or even teaching your child the skills to prepare their own meals – which can be a healthier and more cost-effective alternative.

Use public transportation

Bringing a car to campus comes with significant expenses, including parking fees, insurance, gas, and maintenance. Public transportation passes are typically much cheaper and may even be included in student fees. Some schools also offer shuttle services or discounted passes for students, making it an even more attractive option.

10

Connect with a college planning counselor

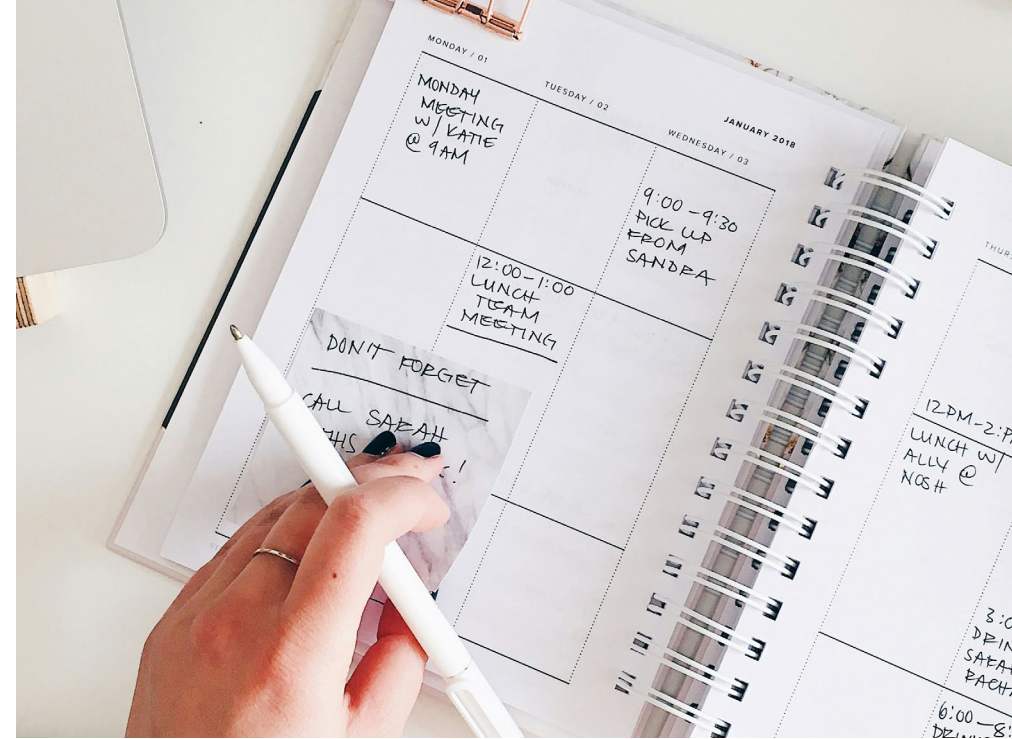
Connecting with a college planning counselor and financial advisor early in the process can help you make informed decisions and avoid common pitfalls, ensuring that you and your child are financially prepared for the cost of higher education.

These professionals can help you navigate the financial aid process, explore scholarship opportunities, and develop a comprehensive plan for funding your child's education. They can also offer guidance on tax-advantaged savings vehicles like 529 plans and advise on strategies to minimize your SAI.

Consider Connecting with an Educational Consultant

If you're struggling to figure out what makes the most sense for your family, don't worry. A lot of parents struggle, which is why educational consultants exist. They can help you navigate every step in the college application process – from acceptance to paying for tuition to preparing for move-in day at the college dorms.

The **Higher Education Consultants Association** offers a directory of consultants offering hourly consultations and package services. Most specialize in admissions, but many also offer assistance in navigating financial aid.



11

Tax Strategies

How Families with High SAIs Can Reduce College Costs

Families with a high SAI often face the challenge of qualifying for limited need-based financial aid. Luckily, there are strategic tax-saving opportunities that can help offset college expenses, making higher education more affordable without putting a strain on your future retirement.

The following tax strategies operate on the basic premise that kids will almost always have a lower tax rate than their parents. By moving income to your children, you can reduce the taxes to be paid on that income, saving your family money as a result.



Explore More: How Inflation Impacts Taxes and Retirement Benefits

Make Your Kids Non-Dependents

Consider making your children non-dependents for tax purposes. This could allow them to claim tax credits, such as the **American Opportunity Tax Credit (AOTC)**, which you as parents may not qualify for. This credit offers up to \$2,500 per year for the first four years of college to taxpayers earning less than \$80,000 annually. Even if they have no income and pay no taxes, they could still be eligible for a \$1,000 credit, and if they owe some taxes, the credit could be as high as \$2,500.

Your child must be enrolled in school at least half-time, and they can claim the credit if they are considered independent (among other **qualifying factors**). In order to become independent, your child must pay for more than half of their own support – including food, housing, clothing, education, medical and travel expenses.

You may also be able to leverage the **Lifetime Learning Credit** to save on educational expenses, which provides up to \$2,000 per tax year for both undergraduate and graduate education, with no limit on the number of years it can be claimed.

While making your child independent may reduce your tax benefits as a parent, the credits they can receive as non-dependents may be worth the change, especially if you do not qualify for other financial aid. However, making your child a non-dependent can also adversely impact how their income and assets are calculated in the SAI formula, so it's crucial to weigh the tax savings against the potential changes in aid eligibility before pursuing this strategy.

Business Owners: Add Your Child to the Payroll

This particular strategy is just for parents who are also business owners. Chances are if you own a business, your kids have pitched in from time to time growing up. By officially adding them to the payroll and giving them a salary, you can reap multiple benefits:

- **The wages reduce your business income and taxes.** Of course, your child will have to pay taxes on their salary, but it will likely be at a much lower tax rate.
- **Your child can start contributing to retirement accounts.** By contributing earlier, they can jumpstart their savings for the future.
- **Your business can offer tuition reimbursement programs.** Such programs can turn school costs into a deductible business expense for further tax savings.

If your child is no longer a dependent, they are eligible for education credits as we discussed earlier. For this strategy to work, you'll have to give your child a W2 and make sure they're actually performing a valuable job for your company – it can't just exist on paper. Pay them a reasonable hourly wage, and have them fill out a time card that you keep on record.

	Change in Parent Taxes	Child Taxes
Business income/wages	(\$30,000)	\$30,000
Education assistance	(\$5,250)	\$5,250
Payroll taxes	(\$2,295)	\$2,295
Income tax	\$9,612	\$1,966
American Opportunity credit	--	\$2,500
Net after-tax income	(27,933)	\$33,489

A Quick Example

Suppose you pay your child a salary of \$30,000. The salary reduces your business income and you also include a \$5,250 deduction for tuition assistance because your child is over 21 and independent.

You have to pay FICA taxes on the salary, but the net result is your taxes go down by \$9,612 while the child owes \$1,966 in taxes. The child also receives the full American Opportunity credit of \$2,500.

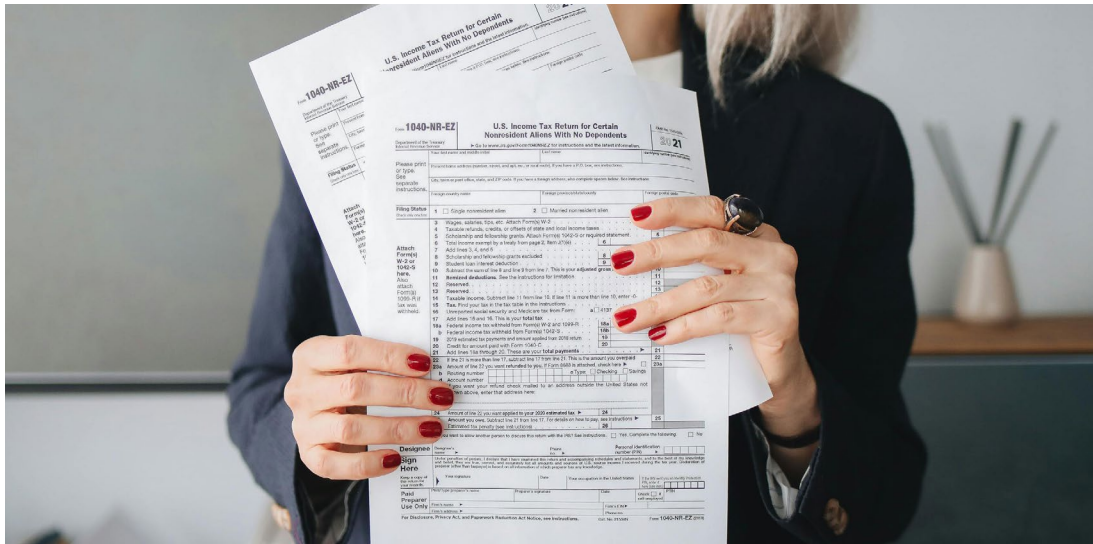
Overall, the parent's after-tax income goes down by \$27,933 but the child's after-tax income goes up by \$33,489 for a savings of about \$5,500 in taxes.

Consult with a Tax Professional

Navigating the complexities of college funding and tax strategies can be overwhelming, especially for families with high SAIs. This is where working with a tax strategist or financial advisor can make a significant difference. A professional can help you develop a comprehensive contribution and withdrawal plan for your 529 plan or other savings accounts, ensuring that you maximize the tax benefits while minimizing the impact on your SAI.

That guidance is especially useful as distributions from 529 plans can also be considered self-support because the money in the 529 plan was already gifted to the student. The treatment of 529 plans can be complex because the IRS and financial aid offices treat them differently. While 529 plans are considered parental assets for financial aid purposes, the income from these plans can be viewed as belonging to the student for tax purposes.

These calculations can get pretty complex, so your tax advisor should help you determine if your child is a dependent or not.



A Quick Example

Suppose your child has \$60,000 in expenses, including school costs. They used \$15,000 from their 529 plan and they also have \$20,000 in unearned income through a gift of appreciated stock from you. This could still fall below the gift tax exclusion if you and your spouse each gift a total value of less than \$17,000.

Your child uses all their income to pay for more than half their expenses, so they are no longer a dependent for tax purposes. In order to qualify for the American Opportunity Credit, they need to pay for at least \$4,000 of educational expenses out of pocket and not from a 529 plan.

They will owe no taxes because their capital gains tax rate is 0%, but they will still receive a \$1,000 refund for the American Opportunity credit.

In the meantime, you avoided paying capital gains taxes on the \$20,000 and saved \$4,760. The combined result is a savings of \$5,760.

As you can see, you could save thousands of dollars in taxes through income shifting, but it can be a complex process.

Need help paying for your child's college without sacrificing your financial future?

Contact Griffin Black today for personalized guidance and a comprehensive college funding strategy.

Reducing college costs for families with high SAs requires careful planning and strategic decision-making. By understanding and implementing these cost-saving strategies, you can help your child pay for their education while protecting your future retirement.

Our team of experienced advisors at Griffin Black can work with your family to develop a personalized strategy that aligns with your financial goals and ensures you're making the most of available tax benefits.

[Click here to schedule an introductory meeting today.](#)

About Griffin Black

Griffin Black was founded in 2001 to help professionals, executives, and small business owners more effectively manage their personal financial resources and more easily reach their goals.



Our Office

702 Marshall St.
Suite 411
Redwood City, CA 94063

Contact Us

Office: 650.368.5785

Fax: 650.989.6766

[Accessibility Statement](#)



This material is the copyright of Griffin Black LLC. and all its content are for general informational purposes only. They are not intended to provide specific financial, investment, tax, or legal advice. The presentation should not be construed by any consumer and/or prospective client as an offer to sell securities or render personalized investment advice. Please do not use or rely on this presentation or its content as a substitute for the expertise and judgment of a financial planner or other investment professional.