Horizons Insurance

Planning your future

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$352,700

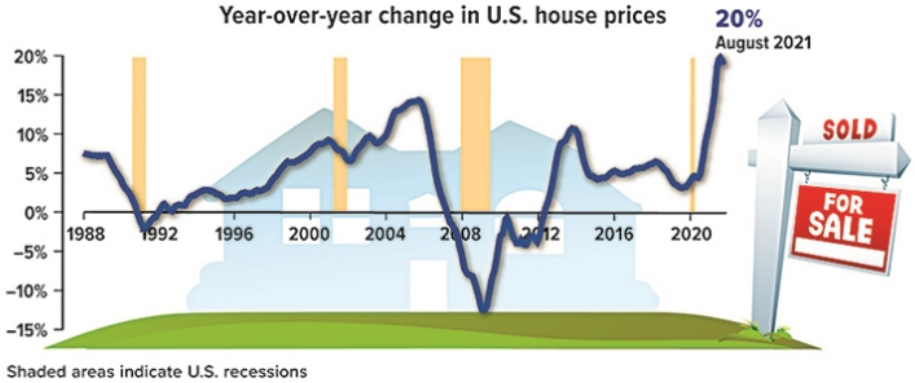
National median price of an existing home in October 2021. This was lower than median prices in the summer, but higher than September. The West was the most expensive region with a median price of $507,200, followed by the Northeast ($379,100), South ($313,600), and Midwest ($259,500).

Source: National Association of Realtors, 2021

Home Prices Have Risen at Record Pace

U.S. home prices rose 20% during the 12 months ending in August 2021 as buyer demand far exceeded the supply of dwellings for sale. This was the largest annual price increase in the history of the monthly S&P/Case-Shiller U.S. National Home Price Index going back to 1988. The index continued strong growth at a slightly slower pace in the fall, typically a time when the market takes a breather.

Home prices fell during most past recessions, but the housing market has been anything but normal since the pandemic began in 2020. In many cities, builders struggle to build enough homes to meet the demand driven by low interest rates, a desire for more space while working and schooling at home, and the aging of millennials into homeownership. This trend was amplified by labor shortages and spiking material costs in 2021.



Sources: S&P Dow Jones Indices, 2021 (data for the period January 1988 to October 2021); *The Wall Street Journal,* July 27, 2021; National Association of Realtors, November 17, 2021

When Two Goals Collide: Balancing College and Retirement Preparations

You've been doing the right thing financially for many years, saving for your child's education and your own retirement. Yet now, as both goals loom in the years ahead, you may wonder what else you can do to help your child (or children) receive a quality education without compromising your own retirement goals.

Knowledge Is Power

Start by reviewing the financial aid process and understanding how financial need is calculated. Colleges and the federal government use different formulas to determine need by looking at a family's income (the most important factor), assets, and other household information.

A few key points:

- Generally, the federal government assesses up to 47% of parent income (adjusted gross income plus untaxed income/benefits minus certain deductions) and 50% of a student's income over a certain amount. Parent assets are counted at 5.6%; student assets are counted at 20%.[1]
- Certain parent assets are excluded, including home equity and retirement assets.
- The Free Application for Federal Student Aid (FAFSA) relies on your income from two years prior (the "base year") and current assets for its analysis. For example, for the 2023-2024 school year, the FAFSA will consider your 2021 income tax record and your assets at the time of application.

Strategies to Consider

Financial aid takes two forms: need-based aid and merit-based aid. Although middle- and higher-income families typically have a tougher time receiving need-based aid, there are some ways to reposition your finances to potentially enhance eligibility:

- Time the receipt of discretionary income to avoid the base year.
- Have your child limit his or her income during the base year to the excludable amount.
- Use countable assets (such as cash savings) to increase investments in your college and retirement savings accounts and pay down consumer debt and your mortgage.
- Make a major purchase, such as a car or home improvement, to reduce liquid assets.

Many colleges use merit-aid packages to attract students, regardless of financial need. As your family explores colleges in the years ahead, be sure to investigate merit-aid opportunities as well. A net price calculator, available on every college website, can give you an estimate of how much financial aid (merit- and need-based) your child might receive at a particular college.

Don't Lose Sight of Retirement

What if you've done all you can and still face a sizable gap between how much college will cost and how much you have saved? To help your child graduate with as little debt as possible, you might consider borrowing or withdrawing funds from your retirement savings. Though tempting, this is not an ideal move. While your child can borrow to finance his or her education, you generally cannot take a loan to fund your retirement. If you make retirement savings and debt reduction (including a mortgage) a priority now, you may be better positioned to help your child repay any loans later.

Some Parents Use Retirement Funds to Pay for College

	Retirement Savings Withdrawal		Retirement Account Loan	
	2020	2021	2020	2021
Percentage of families using each source	14%	16%	7%	6%
Average amount	$3,143	$3,633	$2,806	$3,631

Source: Sallie Mae, 2021

Consider speaking with a financial professional about how these strategies may help you balance these two challenging and important goals. There is no assurance that working with a financial professional will improve investment results.

Withdrawals from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income and may be subject to a 10% penalty tax if taken prior to age 59½, unless an exception applies. (IRA withdrawals used for qualified higher-education purposes avoid the early-withdrawal penalty.)

1) College Savings Plan Network, 2021

Building Blocks for Financing College with Less Debt

Financing a college education with the least amount of debt involves putting together a variety of resources in the most favorable way for your family. It requires planning, savings discipline, an understanding of financial aid, smart college research, and good decision making at college time.

Your College Fund

Your savings are the cornerstone of any successful college financing plan. It's helpful to think of your college savings as a down payment on the full cost, similar to a down payment on a home. Then at college time you can supplement your savings with other available resources.

Setting aside money for college over many years takes discipline, and in many cases sacrifice, including lifestyle changes. Every family's situation is different. But if you save regularly over time, you might be surprised at how much you could accumulate in your college fund.

A College Fund Takes Shape

Monthly Investment	5 Years	10 Years	15 Years
$100	$6,977	$16,388	$29,082
$300	$20,931	$49,164	$87,246
$500	$34,885	$81,940	$145,409

Assumes a 6% average annual after-tax return. This hypothetical example of mathematical principles is used for illustrative purposes only and does not reflect the actual performance of any investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Actual results will vary. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investing strategy will be successful.

Financial Aid

Financial aid is the next piece of the puzzle. It's a broad term that can mean a lot of things, with concepts that are often used interchangeably. At its core, financial aid is money to help pay for college: loans, grants, scholarships, and work study. Your overall goal is to get the most amount of grants and scholarships (grant aid) and the least amount of loans.

Colleges are the largest source of grant aid, with annual need-based and/or merit-based grant awards that can be in the tens of thousands of dollars. By contrast, the federal government's two main grants, the Pell Grant and the Supplemental Educational Opportunity Grant, are generally smaller amounts and reserved for students with the greatest financial need.

To help find colleges with the most generous grant aid, use a net price calculator, which is available on every college website. A net price calculator provides an estimate of how much grant aid a student might expect based on his or her financial information and academic profile. By completing a net price calculator for several colleges, you can compare what your out-of-pocket cost (net price) might be at different schools and rank colleges based on affordability.

The federal government's main contribution to the world of financial aid is in the form of student loans. All students, regardless of financial need, are eligible for federal student loans.

Additional Funding Sources

Other potential resources at college time might help reduce the overall amount you'll need to borrow: what you can contribute from current income during the college years; your child's earnings from a school or summer job; education tax credits, which could be worth up to $2,500 per year; financial help from grandparents or other relatives; and scholarships from civic, private, or nonprofit groups.

On the cost-cutting side, your child might consider graduating in less than four years; attending community college for two years and then transferring to a four-year college; becoming a resident assistant to get free or discounted room and board; living at home for a semester or two; exploring all in-state public college options; and deferring enrollment for a year to earn money and take advantage of any employer educational assistance.

After taking everything into account — the amount of your college fund, the grant aid your child might receive at specific colleges, the amount of money you and your child can contribute from current income during the college years, and the availability of other resources and cost-cutting measures — you can determine how much borrowing would be required for specific colleges and make an informed choice.

Borrowing money to pay for college can easily spiral out of control. Make sure your child understands what the monthly payment will be for different loan amounts over a 10-year repayment term. If the numbers look daunting, don't be afraid to say "no" to certain colleges. Most teenagers are not financially experienced enough to fully understand the negative consequences of extreme borrowing, so it's up to parents to help eliminate options that aren't financially viable.

Four Basic Principles of Financial Literacy

It is widely recognized that financial literacy impacts a person's overall economic success. In fact, studies have shown that individuals who are exposed to economic and financial education at an early age are more likely to exhibit positive financial behaviors when they are older (e.g., maintaining high credit scores, accumulating wealth). As a result, many states are requiring high school students to take a course in either economics or personal finance before they graduate.[1]

Whether you are just starting out and beginning to manage your own finances or simply want to stay on top of your current financial situation, it's important to always keep these basic principles of financial literacy in mind.

1. Create a budget and stick with it. A budget helps you stay on track with your finances. Start by identifying your income and expenses. Next, compare the two totals to make sure you are spending less than you earn. Hopefully, your budget is still on the right track. If you find that your expenses outweigh your income, you'll need to make some adjustments. Finally, while straying from your budget from time to time is normal, once you have a solid budget in place it's important to try to stick with it.

2. Set financial goals. Setting goals is an important part of life, particularly when it comes to your finances. Short-term goals may include saving for a new car or building an emergency fund, while long-term goals may take more time to achieve (e.g., saving for a child's education or retirement). Over time, your personal or financial circumstances will most likely change, so you'll need to be ready to make adjustments and reprioritize your goals as needed.

3. Manage your credit and debt. Reducing debt is part of any healthy financial plan. Whether you have student loan debt, an auto loan, and/or a credit-card balance, you'll want to pay it down as quickly as possible. Start by tracking all of your balances while being mindful of interest rates and hidden fees. Next, optimize your repayments by paying off any high-interest debt first and/or taking advantage of a debt consolidation/refinancing program.

4. Protect yourself. When it comes to insurance coverage, are you adequately protected? Having the appropriate amount of insurance to help protect yourself against possible losses is an important part of any financial strategy. Your insurance needs will depend on your individual circumstances and can change over time. As a result, you'll want to make sure your coverage properly aligns with your income and family/personal circumstances.

[1] 2020 Survey of the States, Council for Economic Education

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