FRANKLIN TEMPLETON

Topic Paper
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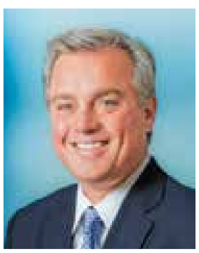
FINANCING EDUCATION IS A RETIREMENT ISSUE

When asked, most people say that retirement is their number one investment goal. Successfully investing for retirement requires two essential elements—the right investments and the right plan. The right plan addresses several challenges such as: saving enough to fund the type of retirement that one envisions, accounting for long-term income needs, preparing for medical expenses, and... financing education costs.



Roger Michaud
Senior Vice President
Franklin Templeton
Distributors, Inc.

Mike O'Brien
Director
Franklin Templeton
Distributors, Inc.

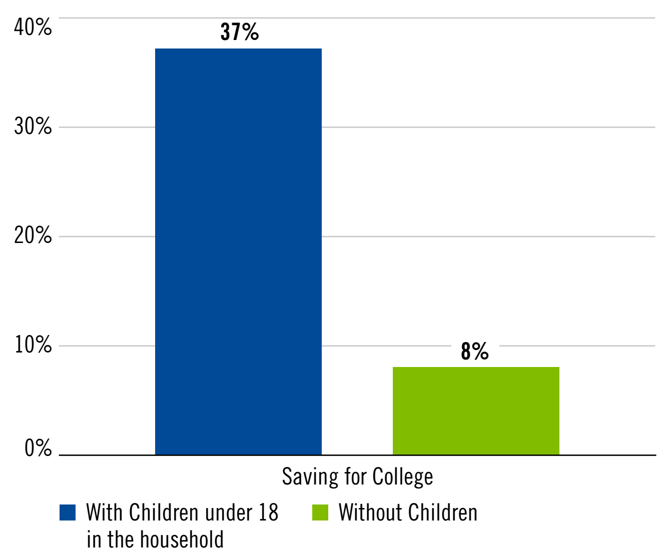
Roger Michaud is a senior vice president and director of sales for Franklin Templeton's 529 College Savings Plan. Mr. Michaud is also chairman-emeritus of the College Savings Foundation, the leading nonprofit helping American families save for their children's college education.

Mike O'Brien is a director of marketing overseeing Franklin Templeton's and 529 saving marketing strategies. Mr. O'Brien has been active in the financial service industry since 1992.

While financing education may not seem like a retirement issue, for many people—especially those with children—financing college is a top investment goal that ultimately intersects and competes with their retirement saving efforts. To prevent one effort from undermining the other, incorporate education financing into retirement planning.

CHILDREN MAKE A DIFFERENCE[1]

Top ranked investment goal



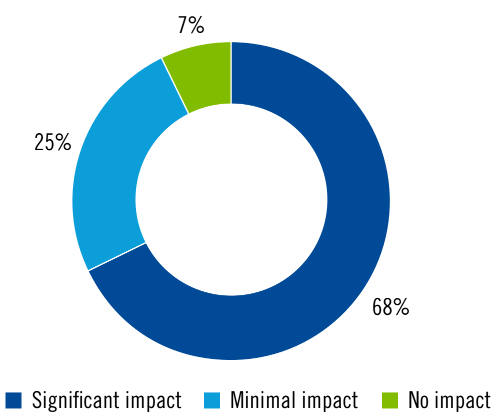
Significant Impact on Retirement

For people with multiple investment goals, data shows that goals are often intertwined with one affecting another. The College Savings Trends Survey[1] revealed that financing education frequently has a direct and potentially negative impact on retirement.

When asked to describe the impact of financing a college education for retirement planning, only 7% of those with children under 18 in the household said it would have no impact while over ⅔ indicated that the impact would be significant.

THE IMPACT OF SAVING FOR COLLEGE ON RETIREMENT[1]

How those with children view college savings (under 18 in the household)

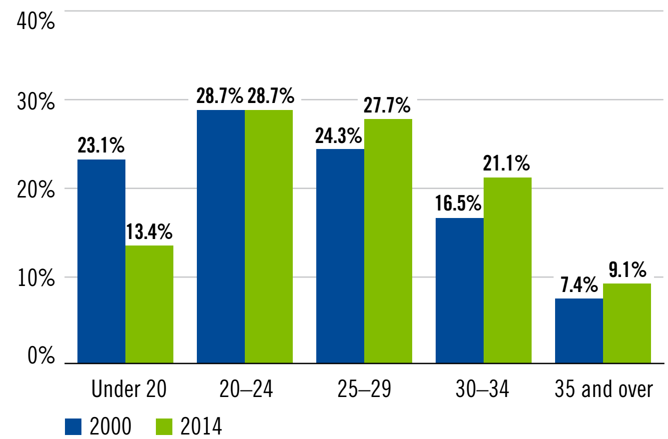


College—Big Expense at the Wrong Time

As people are having children later in life, investors are more likely to find themselves financing college expenses during their prime retirement savings years. Parents often find themselves siphoning money from retirement savings to address the more immediate need of financing a college education.

HAVING CHILDREN LATER IN LIFE[2]

Percentage of first births, by age of mother, 2000–2014 (U.S.)



Many Expect to Delay Retirement Until They Won't or Can't

When people reallocate their savings from retirement to education, they are faced with the issue of being unable to retire as planned due to a lack of savings. This leads to the choice to keep working and retire later or retire as planned, albeit with less in savings and a lower standard of living in retirement.

According to the Franklin Templeton College Savings Trends[1] survey, 21% of those with children said they would retire later in order to finance a college education. This was reinforced in the Franklin Templeton 2018 Retirement Income Strategies and Expectations (RISE) Survey[3] which revealed that delaying retirement is a number one strategy when there is a lack of savings. However, the RISE Survey illustrated that there are pitfalls with the "delay retirement" strategy.

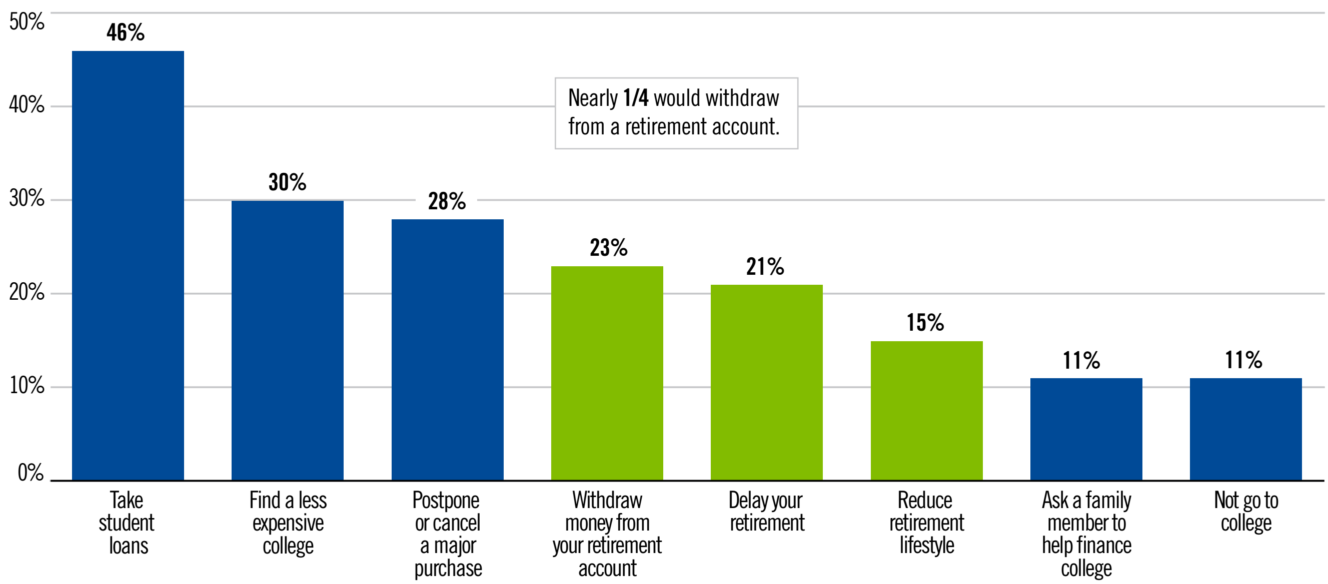
1. **Won't Delay:** As retirement draws near, people are less willing to delay retirement and more willing to reduce their retirement lifestyle.
2. **Can't Delay:** Nearly ¼ of retirees were unable to control when they retired because they were forced into retirement based on circumstances beyond their control.

Don’t Get Caught Stealing (from Yourself)

While delaying retirement may not be an optimal solution for those trying to finance education, it is much better than another common option—stealing! This does not mean robbing a local bank. A significant number of individuals are willing to withdraw from their retirement saving accounts to finance an education. However, this should be done very cautiously.

Taking money from a retirement account can fatally impact the ability to reach retirement saving goals. Additionally, any withdrawal from a retirement account requires careful planning to understand the impact of penalties, fees, taxes and the impact on financial aid (since a withdrawal may be considered as income).

WHAT WOULD YOU DO TO FINANCE A COLLEGE EDUCATION?[1]



Long-Term Effect of Student Loans

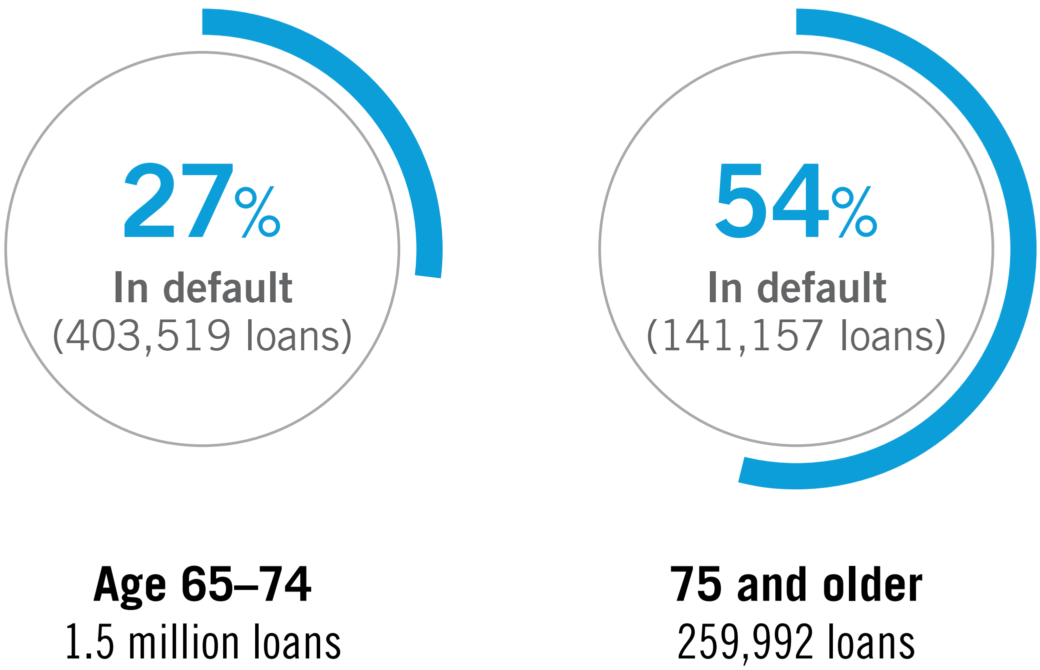
As the previous chart illustrates, people increasingly rely on student loans to address a lack of education savings. This raises concerns about the impact on older and retired borrowers.

According to a related survey from the College Savings Foundation, 45% of parents are still paying off their own loans.[4] That means fewer available funds to help their children save for college, debt payments decrease their discretionary retirement income and erode their lifestyle, or they find themselves defaulting on their student loans.

Although older borrowers have fewer federal student loans, their default rate is much higher than that of younger borrowers. For individuals aged 25–49 that held federal student loans, only 12% were in default, while 27% of loans held by individuals 65 to 74 were in default, and more than half of loans held by individuals 75 or older were in default. This is having an impact on their retirement income. The number of people whose Social Security checks are garnished due to student loan defaults has skyrocketed in recent years, increasing fivefold since 2001.

RETIREMENT DERAILED

Student loans defaults on the rise as people age[5]



Taking Small Steps in the Right Direction

It seems like sage advice to save early, save often, and save consistently—what 76% of retirees polled in the RISE survey said they would advise someone who hadn't yet retired. While that advice sounds very reasonable, only 56% of those with children under 18 in the home are currently saving for retirement.[3] It's crucial for families to make education planning part of their overall retirement savings and investment plans.

Your strategy depends on your current and future lifestyle. Do you expect to have children? Do you have children now?

> *"The secret of getting ahead is getting started. The secret of getting started is breaking your complex overwhelming tasks into small manageable tasks, and starting on the first one."*
>
> —Mark Twain

What to Expect Before You Are Expecting

If you are having children later, start saving for retirement sooner. Historically, most people do not engage in retirement savings until later in their careers—often the result of focusing on starting and raising a family. As people have children later, this means that the "pre-child" period of your life should include saving as much as possible for retirement.

Retirement Planning for Those with Kids: 401(k), IRA and 529

Families must make education planning part of their overall retirement savings and investment plan. As people think about retirement funds such as 401(k)s and IRAs, they should consider education saving options such as 529 and Coverdell plans as well.

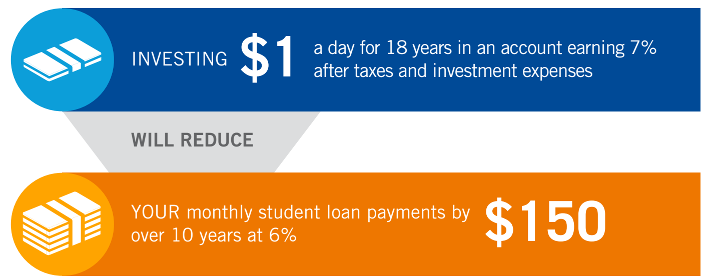
Investors must recognize the necessity of striking a balance between saving for education and saving for retirement. Emphasizing one over the other could jeopardize both investment goals.

Families often question how to save for both education and retirement—often at the same time, from the same pool of investible assets. This conundrum presents itself as families anticipate other financial obstacles such as rising college costs, tax increases, and the likelihood of entitlement reform and lower market returns.

Adding to Your Plans: The "$1 Solution"

The "$1 Solution" offers an answer to the conundrum faced by families caught between needing money for both retirement and education. The first step requires planning their savings strategy for retirement and education financing. People should recognize that they only have one pool of funds. They need to use their best discretion to choose how to invest this limited pool of money. Next, people are challenged to increase their savings rate by an additional $1 per day.

How much of a difference can this make? Consider this:



Saving $1 per day ($30 per month) over the span of 18 years, and investing this money at a long-term annualized average growth rate of 7% (after taxes and investment fees), can create enough money to reduce student loan payments by $150 per month (assuming a 10-year repayment plan at a 6% APR).

Parents who currently don't invest for education are encouraged to start investing $1 per day for each child. Parents who already save for education are encouraged to increase their savings by $1 per day.

Multiply Your Efforts

As illustrated above in the "$1 Solution", even small contributions can add up over time. In addition to time, small contributions made by multiple contributors can also have a meaningful impact on saving efforts.

One of the strategies of successful education savers is to expand the effort and ask family and friends to contribute to an education savings account often for special occasions such as birthdays or for holidays. By leveraging the generosity of family and friends, parents find themselves in a better position to save for retirement and/or reduce the impact of student debt.

Minimize the Allure of Student Debt

In an effort to address retirement saving needs, should people not save for education, and instead rely solely on grants, income, and student loans to pay for it? It is always wise to maximize the amount of education funding sources including financial aid and income; however, don't be afraid to use student loans—if they are used wisely.

The simple truth is that student loans are neither "good" nor "bad." They're simply a tool. Used correctly, student loans can help you afford college and gain access to a better life. Used injudiciously, however, they can saddle you with hefty payments at the beginning of your career, which may impact your job mobility or cause you to delay other milestones like buying a home or starting a family. Ultimately, education affordability is the culmination of many small steps, ranging from finishing a degree on time (or early) to taking summer courses; from living at home to selecting an affordable institution; from carefully selecting a major to carefully selecting a course load. While you may want to consider taking other steps, such as saving money, utilizing tax-advantaged savings plans like the Franklin Templeton 529 College Savings Plan and Coverdell plans, and looking for grants and scholarships, loans can be useful in bridging the final gap between savings and final costs. In spite of the negative press, student loan debt can be a helpful tool that prepares you to enjoy a successful career. Borrow wisely and enjoy the fruits for decades to come.

Final Thoughts

Over the past few years, the number of people saving for retirement has declined. During the same time, the cost of education and higher education has increased faster than inflation, and student loan debt has exploded to a record-high $1.4 trillion.[6]

Don't be overwhelmed. Take small steps. There are many creative ways to finance an education, from enlisting family members in a "crowd-funding" solution to pursing community college for the first two years to exploring various scholarships and grants. Each of these ideas may reduce the burden of financing education and allow people to save for both retirement and education at the same time.

With proper planning, creative solutions and perhaps a few sacrifices, it can be done.

1. The Franklin Templeton College Savings Trends Survey was conducted online among a sample of 1,009 adults comprising 506 men and 503 women 18 years of age and older. The survey was administered between April 30–May 3, 2015, by ORC International's Online CARAVAN, which is not affiliated with Franklin Templeton. Data is weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigns a weighting factor to the data based on current population statistics from the U.S. Census Bureau. Children are defined as those age 18 or younger in the household.

2. U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, Centers for Disease Control and Prevention NCHS Data Brief, No. 232. January 2016.

3. The Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,002 adults comprising 1,002 men and 1,000 women 18 years of age or older. The survey was administered between January 17 and 25, 2018, by ORC International's Online CARAVAN®, which is not affiliated with Franklin Templeton. Data is weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigns a weighting factor to the data based on current population statistics from the U.S. Census Bureau.

4. College Savings Foundation's 12th Annual State of College Savings Survey, 2018. https://www.collegesavingsfoundation.org/press-releases/college-savings-foundation-12th-annual-survey/.

5. United States Government Accountability Office, Testimony Before the Special Committee on Aging, U.S. Senate, Wednesday, September 10, 2014. http://www.gao.gov/ assets/670/665709.pdf

6. Source: BOARD OF GOVERNORS of the FEDERAL RESERVE SYSTEM, https://www.federalreserve.gov/releases/g19/current/default.htm, June 2018.

Investors should carefully consider 529 plan investment goals, risks, charges and expenses before investing. To obtain the Investor Handbook*, which contains this and other information, talk to your financial advisor or call Franklin Templeton Distributors, Inc., the manager and underwriter for the 529 plan at (800) DIAL BEN/342-5236 or visit franklintempleton.com. You should read the* Investor Handbook *carefully before investing and consider whether your, or the beneficiary's, home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in its qualified tuition program.*

An investment in Franklin Templeton 529 College Savings Plan does not guarantee any specific rate of return or that your education investing goals will actually be met. The value of an investment in the plan may fluctuate, and investors may have a gain or a loss from investment in the plan.

This is not a recommendation of any particular security, is not based on any particular financial situation or needs, and is not intended to replace the advice of a qualified financial advisor. Before making any financial commitment regarding a Section 529 savings plan, consult with an appropriate financial advisor.

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Franklin Templeton Distributors, Inc.
One Franklin Parkway
San Mateo, CA 94403-1906
(800) DIAL BEN® / 342-5236
franklintempleton.com

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