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ABSTRACT

This short brochure offers practical advice and information to parents and students on financing a college education. It opens with 10 facts about financing a college education to serve as a backdrop for the advice and information offered in the following pages. The brochure offers its information in a question and answer format. Topics covered include: when to begin saving, good savings plans, prepayment plans, qualifications for financial aid, state and federal financial aid programs, finding help, specific situations such as divorced parents, gifts from relatives, home equity loans, income in retirement plans, college financial aid package offers, selecting a financing option, and student loans. (JB)

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An Insider's Guide to Financing a College Education

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Ten Facts About Financing A College Education

1. Estimates of the increase in lifetime earnings between a college graduate and a high school graduate range from $650,000 to $1,000,000.

2. The Labor Department predicts that more than half of all new jobs in this decade will require at least some college education.

3. Eighty-two percent of all parents believe college costs are too expensive.

4. One out of every three high school students has ruled out college and estimate college costs to be three times what they really are.

5. Savings as a percent of disposable income dropped from 9% in 1982 to 5% in 1991.

6. Seventy-five percent of financial aid comes from the federal government, down from 85% a decade ago.

7. Over 80% of students attending private colleges receive some financial assistance and 40% of students in public colleges receive aid.

8. Average college costs last year were $14,000 for private school; $7,000 for public school costs.

9. Approximately 5% of all college students attend schools with tuition over $10,000 and of that group only 50% pay the full cost.

10. There are three times as many colleges with tuition and fees of less than $5,000 than there are schools charging more than $10,000.

The following information is excerpted from <u>*Barron's Complete College Financing Guide*</u> *and* <u>*Keys to Financing a College Education*</u> *by Marguerite J. Dennis, Dean of Enrollment and Retention, Suffolk University.*

Thirty Questions and Answers

The following are some of the questions most frequently asked by parents and students about the college financing process.

When should I begin planning for my child's college education?

NOW. You can never begin too early to plan to meet future college expenses. In fact, some financial analysts recommend that as soon as your child is born, you should initiate some college financial program. Early planning gives families options and can make the difference in the college selection process.

What is the best savings plan?

There is no one single savings or investment program that will work for all families. Each family must design and plan a financial strategy that will best meet its particular financial needs. The age of the child and the parents, and the financial resources of the family, will determine to a great extent the appropriate college savings program. The federal formula currently used to determine a family's ability to pay for college assesses greater weight to current income than to assets, so parents are not unjustly penalized for having made early financial arrangements to meet college costs. All families must assume the major responsibility for financing their children's educations, and that responsibility includes planning for college much earlier than has generally been the case with American families.

What about prepayment plans? Are they recommended?

Prepayment plans allow families to purchase a fixed, discounted tuition amount that represents that current four-year cost of tuition. The money is then invested by the institution or the state to cover the future cost of tuition. Prepayment plans relieve families of anxiety of escalating tuition bills. However, caution is urged. Prepayment programs are a new type of financing option. Before investing any money in a prepayment plan, find out whether the plan covers all college costs or just tuition expenses. Find out residency requirements and your tax liability. Know the maximum amount that can be invested, and determine what happens to your investment if your child decides not to attend that college or any college or drops out after the first year.

What about tuition stabilization plans?

This type of financing option is similar to prepayment plans, but the amount paid into the plan is generally less than four years of tuition. Most tuition stabilization plans require the family to pay a portion of the educational costs in advance. The advantage of this type of plan is that tuition is capped for all subsequent years that the student is enrolled at the school.

How will a family know whether they qualify for federal financial assistance?

No one can tell a family with certainty whether they will qualify for federal financial aid. For one thing, the federal government frequently changes the rules and regulations that determine eligibility. Some schools have a service that provides families with an estimate of what their aid will be if the student is accepted. Check with all schools you are considering for this service. If you know at the time of application what you can realistically expect to receive from all sources, you can determine whether you can afford to send your child to that particular school and what your financial contribution is expected to be.

I have twin sons. Should I give up on sending them to college?

NO. Family contribution is divided by the number of family members enrolled in college at the same time. You may actually receive more money for having two children in college.

Is there an income cutoff for federal financial aid?

There is no income cutoff to receive federal financial aid. All families, regardless of income, should file the application for federal aid. REMEMBER: eligibility for funding from all sources is determined in part by costs. Attending an expensive school may actually mean that a family will qualify for more aid than if the student attended a lower-cost institution. That is why it is so important for college selection to be based primarily on academic need and ability, and not on finances. Another good reason why all families should file for federal financial aid is that most colleges and universities will not consider a student for institutional aid unless a federal application form is on file.

Are some federal and state financial assistance programs easier than others to obtain?

In general, it is easier to obtain a loan than a grant. However, for a student to receive any financial aid, including federal and state loans, financial need criteria must be met. In most cases, a single financial aid form is used to determine eligibility for federal and state programs. Therefore, by applying for federal aid, a family is automatically considered for most other financial assistance programs.

Are there any alternatives if federal aid is denied?

YES. There are many ways to finance a college education. Most schools and many states award scholarships based upon academic achievement. Many private organizations offer financial assistance to students who meet specific criteria. Many banks have college financing programs. Two federal loan programs, the PLUS and SLS programs, are awarded on the basis of creditworthiness, not financial need. Also, if a family has a savings plan and an investment program, and has been planning for several years to finance that college education, they have provided themselves with funding alternatives.

Isn't it true that the federal government has reduced the amount of money allocated for student financial assistance programs?

NO. The federal government still provides about 75% of all aid awarded. While it is true that aid from the federal government has not kept pace with annual tuition increases, it is incorrect to state that the federal government no longer supports higher education. Financial assistance is still available. Funding sources have shifted from grants to loans, however, and at some schools employment allocations have decreased. Although deficit budgets will probably prevent the federal government from substantially increasing financial aid to college students, there are many other sources of funding, including state and institutional programs. It is the responsibility of the family to locate those sources.

The process is so complicated. Who can help me?

The first person who can help you is you. The process of finding the money for your child to attend college will seem complicated if you do not take the time to investigate, educate yourself and explore all of your financial options. Find out as much as you can about financing a college education. As a reader of this book, you have already learned a great deal about financial aid. Compare college costs. Seek the advice of your accountant, banker, investment broker. Get to know a financial aid counselor at the local college or university. Save. Plan. Work. The more knowledge you have, the less complicated the process will be.

Should I pay someone to conduct a computerized scholarship search?

That's a personal choice. If you are willing to do the reading and research, and if you have access to a good library, you can locate many of the sources frequently listed by financial aid consultants. If you do use the services of a scholarship search firm, be prepared to spend from $40 to $70. I think you can and should be responsible for finding the financial resources necessary for your child to attend college.

Are there any "tricks" to applying for financial aid?

NO. By the time your child is ready to enter college, the rules and regulations may be different from what they are today. For example, the federal government expects students to contribute 70% of their income and 35% of their assets toward meeting their college costs. Under the current federal formula, parents are expected to contribute 47% of their adjusted available income over $16,000 and 5.6% of their assets to meet college expenses. However, these percentages have frequently changed over the past several years, and there is reason to believe that they will change again before your child begins college. Don't try to "beat the system." Be honest on all of your applications for financial aid. Not only is this the right thing to do, but there are also severe penalties for dishonesty.

What about gifts from relatives and friends? How is that money treated in calculating student need?

Currently, federal financial aid regulations require that students contribute 35% of their assets to meeting their college costs. A $5,000 gift from Aunt Marie means that the student is required to contribute $1,750, or 35% of the $5,000 asset. If, however, Aunt Marie gave the $5,000 to you, the student's parents, the contribution would be $560, or 5.6% of $5,000.

When should I cash in my stocks and bonds? Right before Junior begins college?

The federal aid formula used to determine a family's ability to contribute to a college education expects parents to hand over as much as 47% in profits realized from investments, such as stocks and bonds. It's unwise to do this right before your son begins college. Time your investments so that profits don't show up on your income tax return for the year preceding the one in which you apply for aid.

Should I just have my daughter declare herself independent from the family?

That's not so easy. Remember that the federal government has very specific criteria for determining who is independent and who is not. It isn't up to the family to establish the independent status of their children.

If parents are divorced, who is responsible for supporting the student?

The income of the parent with whom the student has lived for the longest period of time during the past 12 months is used in calculating financial need. Divorced parents should include only their own income, not the income of their ex-spouse, on their financial aid application form. However, there is also a divorced parent's form that should be completed by the other parent.

What if a stepfather refuses to contribute to the education expenses of his child?

Federal law requires a financial contribution from the stepparent. If this assistance is denied, the student should seek the advice of the school's financial aid counselor.

Will a family receive more financial aid if larger contributions are made to a 401(k) plan?

A larger contribution to a 401(k) plan will not affect the amount of financial aid a family receives. Financial aid applications ask families to report nontaxable income, and contributions to a 401(k) plan are considered nontaxable income.

What about home equity loans as a source of financing my child's education?

Home equity loans are a good way for some families to pay for the college expenses of their children. The interest on home equity loans is still tax deductible. The interest on all other consumer debt is not tax deductible. But this is only one financing route to take. What every family should do is investigate the plan that is best for their particular set of financial circumstances.

Will I receive the same amount of financial aid from each college?

Probably not. The amount of money you receive from one school could be very different from what you receive at another; many factors are used in calculating financial need and family contribution. An important factor for a family to consider is the cost of a college or university. Another factor to consider is the amount of institutional aid you are offered and the school's policy of awarding aid. These policies will differ from one college to another and will depend upon the amount of money a school allocates from its own budget for student financial aid.

How can I find out which colleges offer the best financial aid programs?

The first thing for a family to do is to select a college or university that meets the academic needs of the student. Visit as many schools as you can, and meet with both the admission and the financial aid counselors. Get all of the available literature. Compare costs, financial aid policies, school financial assistance programs and the average student indebtedness of recent graduates. Find out the percentage of first-, second-, third- and fourth-year students receiving aid. Most families wait until a student is a junior in high school to conduct this type of comparative process. Don't procrastinate. The earlier you get this information, the easier it will be for you to plan your finances.

Will a student receive the same amount of money each year?

Probably not. The awarding of aid depends upon the family's financial circumstances and college expenses. It also depends upon the school's allocations of funds. Don't count on receiving the same dollar amount each year. Remember that a student must file for financial aid each year, and apply early. If all of the forms are on file, you will be notified sometime between April and June.

Can college students work without jeopardizing their academic success?

YES. This may come as a surprise to many parents, but the majority of college students work while they are in school. Moreover, research indicates that in most cases the academic performance of employed students is not negatively affected. Working students learn how to manage their time. Also, they can acquire valuable skills that may translate into future jobs. Of course, there are limits; working 40 hours a week is not recommended. There are only so many hours in a day, and full-time students should not sacrifice study time to maximize income. However, working 20 hours per week has proved to be manageable for most college students.

There are so many different kinds of financing options and alternative sources of funding a college education. How do I know which one is best for my family's situation?

Only you, in collaboration with your financial consultant, can decide which college financial plan is best for your family. You should apply for all federal, state and school aid before seeking alternative funding sources. Be certain you understand all of the terms and conditions of all of the alternative programs you investigate, and compare programs. You don't want any surprises.

What about student debt? Is it really a problem?

Last year the federal government spent over $2 billion to cover student loan defaults. Currently, there are about 3 million defaulters. It is a fact that more students are borrowing more money to meet their college expenses. It is quite realistic to expect to have to borrow some money for college, but try to keep your child's borrowing under $10,000. Any amount over that may be unmanageable.

If my child must borrow, is there some way to structure the debt after graduation so that monthly payments will be reasonable?

YES. There are loan consolidation programs for graduates with more than $5,000 in student debt. The following loans can be consolidated: Stafford Student Loan, Perkins Student Loan, Health Professions Student Loan, and PLUS and SLS loans. Loan consolidation allows the borrower to extend the period of repayment and to make single, monthly loan payments. The interest rate, determined by federal law, is either 9% or the weighted average of all consolidated loans, rounded to the nearest whole percent, whichever is higher.

What should college graduates do if they cannot meet their monthly student loan bills?

The most important thing to do is not to fall into default status; this could affect a person's credit rating for years to come. Arrangements can be made with the lender if there are extenuating circumstances. Forbearance can be exercised. Students should never default on any student loan.

What should I do if my family's financial situation changes after my child enrolls in college?

The first thing to do is to meet with the school's financial aid director. If a family's financial circumstances change, adjustments can be made to the expected family contribution. The aid official can exercise professional judgment. This is another strong argument for filing a financial aid application, regardless of income. If this form is already on file, reconsideration can be given, even if aid was previously denied.

What are the most important things to remember in financing a college education?

First, plan early; second, begin to save regularly; third, don't borrow too much; fourth, get expert advice; fifth, diversify your college savings program; sixth, change your plan whenever necessary; and seventh, don't despair.