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College Planning Strategies 101

With students now back in school many families turn their attention to college planning and how they might finance the anticipated expenses. Parents may feel they do not have sufficient financial resources to fund private school tuition while also believing those same resources may prevent them from qualifying for financial aid. The maze of financial aid forms and savings techniques can be daunting. Whether students are just one grade closer to college or are actively applying, there are steps that can be taken to assist them in building funds to support their college dreams.

Understanding the Basics

Most financial aid is based on the Expected Family Contribution (EFC), a calculation provided on the federal FAFSA (Free Application for Federal Student Aid) form. This calculation includes income, assets, and other family attributes and represents how much the government believes a family can afford. Once a student's EFC is determined, the school will review how much need-based financial aid is required to meet the cost of attending. For example, if the total cost is $60,000 and the parent's EFC is $48,800, the student would qualify for $11,200 of aid. The EFC is the basis for financial aid decisions and there are ways families can work toward advantaging their student. First, one should know the facts about the financial aid process. Second, families can employ targeted strategies to build a college savings plan. So let's begin by debunking some common myths:

Myth: We can't afford private school tuition
While many private college costs top $60,000 annually, the good news is that the percent of tuition discount universities are providing is on the rise. In the 2013-2014 school year, private universities discounted tuition an estimated average of 47 percent. This percentage is higher than it's ever been, according to a recent survey from the National Association of College and University Business Officers. In comparison, students attending college in 1990 received tuition discounts of only 26%. A school's average discount is often listed on their website.

Myth: It's pointless to apply for financial aid if my family makes too much income
Families shouldn't automatically assume they won't qualify for aid since income is only one of many components in the EFC calculation. It is possible that a higher income family with all their assets invested in retirement accounts could still qualify for aid, especially at a private college. For example, statistics show that students with family incomes of $100,000 to $200,000 may qualify for nearly $25,000 of aid at a private college while they may not qualify for aid if attending a more affordable public university. Even families with incomes above $400,000 may qualify if the family has two or more children attending expensive colleges at the same time. Even more reason to apply is that scholarship/merit based awards utilize the EFC as a starting point. Therefore, even the brightest students often must file the FAFSA form in order to be considered for merit awards.

"Education is the best provision for old age." *Aristotle*

Myth: The award letter is the final word
In this age of rapid change, a family's circumstances can dramatically shift from one year to the next. Since the EFC is based on a family's prior year financial situation, there may be cases in which the figures no longer reflect the family's true situation. Unexpected job loss, marital separation, or unusually high medical costs are just a few examples that would warrant a college taking a second look. In these cases, it is advisable to file an appeal with the financial aid officials and negotiate for additional aid.

Myth: Having money saved for college will disqualify us from financial aid
Just as higher income families often qualify for aid, families with significant assets may also qualify. The key is the nature of the assets and in whose name they are held. Generally, schools do not consider home equity as an available asset, nor does the FAFSA include retirement assets in their calculations. Students can also be advantaged by an older parent as the federal calculation provides for an Asset Protection Allowance which benefits them. Key to maximizing aid is understanding how each asset type affects the EFC and to accumulate assets in ways that least affect the calculations.

Myth: Save all the assets in grandparents or other relatives names
This technique is often touted as a way to remove assets from the EFC calculation. While this does reduce the total asset amount for parents or the student, there is a counter calculation that makes this strategy unwise. When calculating student income, the FAFSA includes contributions to the student from anyone other than parents as income. And income is included at the rate of 50%, much higher than the 5.64% figure applied if the funds are defined as parental assets (or 20% if student assets). Grandparents funding a 529 plan in their own name should take steps to avoid disadvantaging the student's aid by considering transferring 529 plans to the student's parents' 529 plans prior to completion of the FAFSA. Alternatively, wait until the student's senior year to pay tuition from the grandparents' 529 plan as the student will no longer be reporting income for aid purposes.

Strategies for College Savings

In addition to utilizing investment products targeted for building college savings (e.g. 529 plans, Coverdell Education Savings accounts, UTMA accounts, etc.), planning strategies can lend support to the savings plan. For example:

- Segregate assets: Many parents say having a dedicated college savings account helps balance the desire to fund a longer term college goal with other nearer-term needs.

- Reallocate funds: Find cash flow to support the plan by proactively redirecting spending as life changes occur. For example, once monthly preschool tuition is no longer needed, those funds could be earmarked for a monthly college savings plan.

- Enlist the student: One college reported providing $14,000 a year to students with a GPA of 3.0 and SATs of 1170 while awards for students with just slightly better scores amounted to $18,000. Performing well academically is an important way to boost aid while engaging students of all ages in shaping their college destiny.

Bottom line, by separating fact from fiction and establishing strategies for a college savings plan, you can support the college planning needs of the students in your life.

"Education costs money, but then so does ignorance." *Sir Claus Moser*