

Affording College



Knowledge of Financial Education

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Making College Affordable

Did You Know?

- The average cost for a four-year private school in 2011-2012 is \$42,224
- The average cost for a four-year public school in 2011-2012 is \$21,447

Source: *The College Board* www.collegeboard.com

While the sticker price for college can be enormous, as the statistics show, many students do not pay full price. The best way to save money on college is to start early and plan ahead. In fact, starting early in many ways can be the key to making college affordable.

Start saving. Begin to research schools, scholarships, and grants well before it's time to apply to the school of your choice. Apply for financial aid as soon as you can to beat fast approaching deadlines. Considering how much college costs, the time you invest in finding ways to cut expenses for yourself or your child will pay off substantially.

Financial Aid

Financial aid (FA) can come in the form of loans, grants, or work-study programs. The first step in applying for financial aid is filling out the FAFSA – the Free Application for Federal Student Aid as close as possible to January 1st of the year you plan to enroll in school. FAFSA, online applications are available on www.fafsa.ed.gov; paper applications are available at any college campus FA department. This information is used to calculate the all-important Expected Family Contribution (EFC), or the amount the students and/or their families are expected to contribute toward the cost of their education.

Financial aid is based on financial need. While you may have a different idea about how much you need, in terms of school financing, financial need is the difference between your school's cost of attendance (including living expenses), as calculated by your school, and your EFC.

After your FAFSA is processed, the Department of Education will send you a Student Aid Report (SAR), based on your FAFSA. The schools you are interested in will also receive a copy of those results, which they will use to prepare a financial aid package tailored to you.

While the majority of financial aid comes through federal sources, the school you're attending may also offer what's called "institutional" aid, and can provide information on other financial aid programs available through the school. Be sure to arrange an early meeting with the Financial Aid office to find out what additional aid is available to you.

Loans: Student loans make up the majority of most students' aid packages. There are several different types of student loans. Some come directly from the federal government, while others are made available through individual lenders.

One major difference between loans is whether they are subsidized or unsubsidized. With subsidized loans, the government pays the interest while you are in school, up until the grace period ends. With an unsubsidized loan, interest begins to accrue when the loan is disbursed. In this case, you can choose to make those interest payments right away or wait until your grace period ends. The longer you wait, the more expensive it will be. Whether or not you will be eligible for a subsidized loan depends on your financial need.

With federal loans, you have a "grace period" before you must start repaying them. This gives you nine months after you

graduate, leave school, or drop below half-time status before you must start repaying your loans. Again, if the loan is unsubsidized, you will start accruing interest right away. If you have multiple student loans, you may want to look into consolidating them into one loan with a lower payment and interest rate.

PLUS loans are available to parents with a good credit history. There is no grace period on these loans, and interest will start accruing immediately. They can, however, be a good way for parents to help their children fill in the financial gaps. You can also look for private lenders that offer loans to students and their parents.



Warning! *Many students are graduating with unmanageable levels of debt. Don't assume that student loans will be easy to pay off once you graduate and start working full time.*

In fact, the payments may be difficult to juggle with full-time living expenses.

If you can't make your student loan payments you can go into default, which can be expensive and damage your credit rating. It's also extremely difficult (if not impossible) to discharge student loans in bankruptcy, and the payments can stretch out for decades under some repayment options. If you decide you are not going to work in your chosen field of study or drop out of school, you are still responsible for repayment of your student loans. So think very carefully before you borrow!

Grants: If your EFC is below a certain number, and you meet eligibility requirements, you may be eligible for a Federal Pell Grant, or a Federal Supplemental Educational Opportunity Grant (FSEOG) for undergraduates with exceptional financial need. Grants are attractive because they do not have to be repaid. These types of grants are only available to students who have not yet earned a bachelors degree.

Scholarships: Scholarships may be available from a variety of organizations, and can target either students in need or those with special talents or interests. It can take some time to ferret out the possibilities, but again, it is worth the research. High school guidance counselors, public libraries and the Internet can be useful. It can also be helpful to talk with family members' employers; community, civic and religious organizations you or they belong to; and professional associations for the field you want to enter.

Warning! *Beware of scholarship scams that will take your money, rather than give you money for college. The Federal Trade Commission advises you look for these tip-offs that the "scholarship" is a scam:*

- *The scholarship is guaranteed or your money back."*
- *"You can't get this information anywhere else."*
- *"I just need your credit card or bank account number to hold this scholarship."*
- *"We'll do all the work."*
- *"The scholarship will cost some money."*

- *"You've been selected by a 'national foundation' to receive a scholarship" or "You're a finalist" in a contest you never entered.*

Work Study: The federal work-study programs give students the opportunity to work part-time to earn money for college

expenses. Some jobs are on-campus, while others are off-campus, and when possible they relate to your field of study.

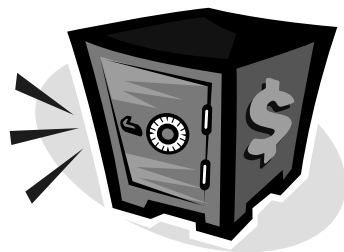
Other Sources: The Department of Veteran Affairs offers several programs that provide assistance to veterans, reservists, National Guard persons, widows, and orphans. The United States Army provides education benefits in several ways. The Montgomery GI Bill and the Army's College Fund can help you pay for future education expenses. Students leaving college may be eligible for the Army's Loan Repayment Program, which repays eligible federally insured loans for active Army or Army Reserve members. AmeriCorps provides educational awards in exchange for a year of community service. Finally, the Indian Health Services and the National Institutes of Health both offer scholarships and loan repayment programs based upon certain criteria.

Savings Choices

There are a variety of ways to save for a child's education. A few of the more popular options are named below.

529 Savings Plans: These plans allow parents or grandparents to save for their children or grandchildren's education. In fact, anyone can open a 529 savings account for himself or for someone else.

Individual states sponsor different 529 plans, with different costs and investment options. In some cases, there are state tax benefits to investing through your state's plan, but don't automatically assume your state's plan is the best option.



Among the major benefits of 529 savings plans are:

- You can contribute regardless of your income;

- The amount you can contribute each year can be quite large (the limit depends on the state's limits for the plan);
- Savings can grow tax-free and you won't pay federal taxes if you use the money for qualified educational expenses which include tuition, books, and room and board;
- The person opening the account maintains control of the account; and the student needs not attend a college in their home state to use the money.
- Many employers conveniently offer this option along with their 401(K) type investment programs – the pre-tax contribution can be automatically deducted from your paycheck.

Like any investment, you should research investment options, expenses and performance when choosing a 529 plan. You can find details about individual 529 savings plans through the College Savings Plan Network, a clearinghouse for information on state savings plans. Visit www.collegesavings.org

Coverdell Education IRAs: Formerly called Education IRAs, these accounts allow anyone to open an account on behalf of a child and contribute up to \$2000 a year (phased out at higher incomes) into an investment account for the child's education expenses – not just college, but also expenses for kindergarten through high school. The account earnings grow tax-deferred, and may be withdrawn tax-free for qualified expenses.

Home Equity: Some parents use their home equity as a form of college savings. They set a goal of paying down their mortgage, or paying it off entirely, by the time their children enter college. They then either take a home equity loan or use the money they have freed up by not having to make mortgage payments to pay the mortgage completely. The advantage to this form of savings is that some colleges do not count home equity when figuring aid awards, and if your child decides not to go to school (or gets a boatload of scholarships) you still have a house that's paid for!

Keep in mind that getting a loan against your home is generally easy if your credit and income are strong, but if you run into tough times, you'll find it difficult to tap the equity without selling. You may want to secure your line of credit ahead of time so you don't have to worry about accessing that equity later.

Creative Strategies

Get Ahead: Passing advance placement (AP) courses in high school can allow students to earn credit or advanced standing at most colleges and universities. That means fewer courses to take (or pay for) at the college level. Visit The College Board's website at www.collegeboard.com for more information.

Stay Close to Home: A local school, if available, can save the cost of room and board. It can also qualify the student for in-state tuition rates, which are often significantly cheaper for residents.

Work Your Way Up: If your sights are set on a degree from a more expensive school, consider taking a year or two of courses at a less costly junior college, community college or state school. Make sure to coordinate carefully to make sure the course credits will transfer.

Save While You Shop: Sign up for **Upromise.com** (and have family and friends do so, too) and you can earn money for college when you buy from hundreds of retail stores, grocery and drugstore chains, restaurants and others. This rewards program is free, so there is no downside to joining. **Visit www.upromise.com.**

Learn On the Job: Some employers will pay for part or all of higher education expenses, allowing a student to work his or her way through college without taking on debt. It can be a particularly attractive way to pay for an advanced degree.

Consider the benefit of tuition reimbursement when considering job offers.

Additional Resources:

For more free helpful government information on paying for college, visit **www.students.gov**

SavingForCollege.com will hook you up with a financial planner with expertise in financial planning for college expenses.

Visit **FinAid.org** for online savings calculators, to estimate college costs, and to figure what your student loan payments will be.

Consolidate Federal Student Loans visit **www.loanconsolidation.ed.gov**

For additional help avoiding scholarship scams, visit **www.ftc.gov** and type "**scholarship scams**" into the search field.

