

# AFFORDING COLLEGE

Prepare for College Expenses



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## Making College Affordable

The cost of a college education has been rising quickly, leaving students and parents to deal with mountains of debt. Between the 2009-2010 school year and the 2019-2020 school year, the published tuition and fees rose by:

- \$670 at two-year colleges
- \$2,020 at four-year, public institutions
- \$6,210 at four-year, private institutions

In total, student loan debt in the United States is up to \$1.6 billion. That's right – billion. This is why people are calling it a student loan debt "crisis." It's holding graduates back financially, and they are being forced to delay big life steps like marriage, home ownership, and more.

It's best to make college more affordable before you ever take out a loan. However, it's never too late to start spending less on your education. In this booklet, we will review various options for lowering the amount you need to borrow for higher education. Parents can learn about college savings accounts and students can review pre-college savings methods, financial aid, scholarships, and other sources of college cash.

## Before College Starts

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 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.

## Earning college credits

Besides scholarships, a great way to cut expenses is to take

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Advanced Placement (AP), International Baccalaureate (IB), and/or dual credit courses in high school. An AP test costs \$93, but if you pass and earn college credits, it could save you thousands. The same is true of IB tests, which cost \$119. Dual-credit courses are slightly different in that, instead of being part of a standardized credit system, students earn credits from a local college through a specially designed high school class. Dual-credit courses are also much cheaper than college credits.

You can also start saving money before you ever set foot on campus. A part-time job or gigs like babysitting and lawn mowing may not pay much, but they will pad your bank account in case you need some extra cash.

## 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 dig through 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.

Apply for as many scholarships as you possibly can. There are no limits, and even small awards can add up.

## Warning!

Beware of scholarship scams that will take your money, rather than give you money for college. The Federal Trade Commission advises you to 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.”

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- “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.

## For Parents: Savings Choices

There are a variety of ways to save for a child’s education. A few of the most 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.

Major benefits of 529 savings plans:

- You can contribute regardless of your income.
- The amount you can contribute each year can be quite large (it 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

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include tuition, books, and room and board.

- The person opening the account maintains control of the account and the student need 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 [collegesavings.org](http://collegesavings.org).

## **Coverdell Education Savings Account (ESA)**

Also known as an Education Savings Account, a Coverdell ESA, a Coverdell Account, or just an ESA, and formerly called an Education Individual Retirement Account (IRA), these accounts allow anyone to open an account on behalf of a child and contribute up to \$2,000 per 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 tuition. The advantage to this form of savings is that some colleges do not count home equity when figuring aid

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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.

## Cutting Costs While Attending College

Choosing the right school and taking advantage of student programs that are available to you through school can help keep costs low. The more frugally you can live while you receive your education, the more you can minimize how much you need to borrow to cover living expenses.



### In-state schools

The tuition and fees for a public school in your state are almost always much lower than an out-of-state school. According to a CollegeBoard report, it can be a nearly \$10,000-per-year difference. Although it can be tempting to get out of your home state, you save thousands by taking advantage of in-state tuition rates.

### Community college

Consider attending a two-year college to get your general education requirements out of the way before transferring to a four-year institution. Your degree will still reflect the four-year institution, but you will have saved thousands by doing your first two years somewhere cheaper.

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## Living on campus

Depending on the city your college is located in, living on campus could be much cheaper than renting an apartment off campus. You don't have to worry about utilities, you will always have Wi-Fi, and there are no security deposits or other fees landlords may levy on you.

## Meal plans and more

Campus meal plans are often much more convenient and much cheaper than buying your own groceries and cooking. It's also connected right to your other college accounts, so you don't have to worry about paying every time you eat. Explore the different levels of meal plans at your school to see which has the best value.

Your tuition and fees come with much more than just a room to live and access to classes. With your student ID, you can also access gyms, huge libraries, discounted theaters, and more. Some stores even offer student discounts if you show them your ID card.

## Financial Aid

Financial aid 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 form, 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 [StudentAid.gov](https://studentaid.gov); paper applications are available at any college campus in the financial aid 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.

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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** 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 most 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 may be available to you.

## Grants

Grants, like scholarships, do not have to be repaid. They mostly depend on a high level of financial need.

### Federal Pell Grants

These grants are mostly for undergraduate students. The amount you receive depends on your level of need, expected family contribution (EFC), your school's cost of attendance, whether you are a full-time or part-time student, and whether you will go to school for the full academic year. In the 2020-2021 school year, the maximum amount you could get was \$6,345.

You do not have to apply for Federal Pell Grants separately. You will automatically be considered when you fill out FAFSA.

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## **Federal Supplemental Educational Opportunity Grants (FSEOG)**

Only some schools participate in this grant program. You could get between \$100 and \$4,000 per year, but it depends on your level of need. These grants are usually reserved for students with the most need. The other aid you receive will also be factored into the equation.

Like Federal Pell Grants, you don't need to apply separately for FSEOGs. Your eligibility is determined by FAFSA.

## **Iraq and Afghanistan Service Grants**

These grants are awarded to students whose parent or guardian was in the U.S. Armed Forces and died as a result of 9/11 or during service in Iraq or Afghanistan. You must also meet all Pell Grant requirements except eligibility based on EFC. Lastly, you must be 24 years old, and you must be enrolled at a college (part-time or full-time) at the time of your parent or guardian's death.

## **Teacher Education Assistance for College and Higher Education (TEACH) Grants**

A TEACH Grant can help you become a teacher and attain the education needed to teach in a high-need, low-income area. To get this grant, you must:

- Complete FAFSA
- Qualify for general student aid programs
- Be in a TEACH-Grant eligible program
- Be at a school that participates in the TEACH Grant Program as an undergraduate, postbaccalaureate, or grad student
- Meet the academic requirements
- Receive TEACH Grant counseling
- Sign a TEACH Grant Agreement to Serve

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## Work-Study Programs

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.

There is no additional application needed. Work-study programs will be offered in your Student Aid package.

## 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.



### Subsidized versus Unsubsidized

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.

### Grace periods

With federal loans, you have a “grace period” before you must start repaying them. This gives you six months after you graduate,

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leave school, or drop below the 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**

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 carefully before you borrow!

## **Other Sources**

The Department of Veteran Affairs offers several programs that provide assistance to Veterans, Reservists, National Guard, widows, and orphans.

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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.

## Additional Resources

Visit [FinAid.org](https://www.finaid.org) for online savings calculators, to estimate college costs, and to figure out what your student loan payments will be.

[SavingForCollege.com](https://www.savingforcollege.com) will hook you up with a financial planner with expertise in financial planning for college expenses.

CollegeBoard's CSS Profile™ can help you apply for more financial aid. Go to [cssprofile.collegeboard.org/](https://cssprofile.collegeboard.org/) to get started.