



7 Steps to Take on the Road to College

By Lynn O'Shaughnessy

College planning can be challenging and scary for parents. But these seven tips can help you secure the best possible situations.

This is a confusing time for parents with teenagers, who will be heading to college soon or in the next few years.

That's especially true since many of the most popular private universities now charge more than \$300,000 for a single bachelor's degree! Recently, there is an Ivy League school with an official cost of attendance at more than \$78,000 for this school year!

STEPPING BACK AND LOOKING AT WHAT TO DO

Here we take a step back and share seven things that parents with college-bound teenagers could be doing.

1. Understand grants and scholarships

An excellent way to avoid overpaying for college is to understand how colleges dispense grants and scholarships. You'll learn a lot more about while you are doing your research, but here is a super quick overview.

Kevin Theissen
Financial Advisor
HWC Financial

4532 Main Street
Manchester Center, VT 05255

(802) 227-2279

kevin@hwcfinancial.com
hwcfinancial.com



Public universities

Since the 2007–2009 recession, state universities have steadily increased merit scholarships to affluent in-state students and nonresidents.

Public universities often post on their websites what it takes to earn their institutional scholarships—it's typically a combination of grade point average and test scores.

Students who do submit scores could enjoy an admission edge and potentially a scholarship advantage!

Private colleges

The most elite private universities are the most likely to give the best need-based aid, but they award little to no merit scholarships.

Nearly all other private colleges, beyond the most highly rated by U.S. News & World Report, dispense merit scholarships to affluent students. The awards are typically better—with lower net prices—for schools located away from major cities and particularly those on the coasts.

What can happen during hard times is dramatically illustrated by this 11-year-old article that ran in the New York Times during the Great Recession. The article focused on one prestigious liberal arts college that turned away talented applicants who needed aid and took less impressive candidates who could pay full price. What the article didn't say was this happens all the time!

2. Identify your tuition resources

You and your college-bound children need to identify where the money will be coming from to pay for college. The sooner you do this, the better.

Especially if the goal is an expensive private college or university, most parents aren't going to be able to pay for four years of college exclusively from their savings. And this is even more true if two or more children will be going to college.

Here is what I recommend that families add up before seriously focusing on college choices:

- 529 savings plan balance
- Continuing monthly 529 contributions
- Estimated total 529 savings at start of college
- Parental pledged assets for college (beyond 529 assets)
- Parental pledged monthly contribution for college during college years
- American Opportunity Tax Credit (up to \$2,500 per college student)
- Student pledged assets for college
- Student pledged monthly contribution to college
- Help from grandparents or others

Add all those funding sources and that is the amount that parents believe they will have for four years of college. Divide that amount by four to determine what money will be available for each year.

3. Address the funding gap

After conducting the exercise above, you need to address any potential funding gap. One way to reduce a gap is to look for schools that will be more generous to a child via its net price. One way to determine what the net cost would be for a specific college is to use a school's net price calculator.

When money is an issue, parents should not let their child apply to any college without running the calculator.

4. Think about loans

Loans represent an obvious way to fill the gap between a college's net price and what a household has to spend. The best loan is the Federal Direct Loan, which is exclusively for students. That loan, however, typically only allows a student to borrow up to \$27,000 for four years and up to \$31,000 for five years.

You, as a parent, can borrow through the Federal Direct PLUS Loan, while a home equity line of credit or private loans are other possibilities.

If borrowing will be necessary, you should understand how much the monthly payments would be.

During a 10-year repayment period, every \$100 you borrow will require a roughly \$100 monthly repayment for federal student loans and slightly higher for the parent loan.

If a student borrowed the maximum \$31,000 in a Federal Direct Loan over a five-year period in college (most students don't graduate in four years) at the current of 4.99%, the monthly payment would be \$329 over a 10-year repayment period.

5. Consider tax planning

When parents or grandparents are paying for college, you can explore whether or not you can get a quick tax deduction or credit by first steering the college payment through a 529 plan. In roughly two-thirds of states, 529 contributors can capture a quick tax benefit. Most states will allow an account owner to contribute to the 529 plan to capture the tax break and then pull it out almost immediately to help pay for college.

Parents and grandparents need to understand this recent development—529 plan assets can now be used to pay off a certain amount of a student's college debt. Until the CARES Act, that wasn't possible.

6. Call in hints of help

If applicable, have the talk with grandparents or others who have said or hinted that they would help pay for college. The closer the college years get, the less helpful are vague promises of support for your children's college years.

7. Use a contribution calculator

Ideally, before you start seriously looking at colleges, you should use a Student Aid Index (SAI) calculator. The tool will generate a dollar figure that represents what a family could pay, at a minimum, for one year of college.

Families need to have a realistic idea of what colleges will expect them to kick in. Usually, families that have actual financial need will have to pony up much more than that since most schools provide nowhere near enough need-based financial aid to their students.

The SAI can also help direct you to whether you should look for schools that provide merit aid or need-based aid. Taking the College Board's Financial Aid Quiz (<https://npc.collegeboard.org/app/aidquiz>) is easy to do.

Lynn O'Shaughnessy is a nationally recognized college expert, higher education journalist, consultant, and speaker.