7 Ways to Help You Cut College Costs

Kevin Garrett, AWMA, CFS
Partner
Integrated Financial Group
200 Ashford Center North
Suite 400
Atlanta, GA 30338
770.353.6311
kgarrett@intfingroup.com
http://www.integrated-financial-group.com/

INTEGRATED FINANCIAL GROUP
A CONSORTIUM OF INDEPENDENT FINANCIAL PLANNERS

By Lynn O'Shaughnessy

Parents may assume they earn too much to qualify for financial aid. However, there are a number of strategies that even wealthy families can employ to cut expenses. Here are seven steps for estimating costs and maximizing financial aid.

While it's no surprise that parents stress about how they're going to pay for college, you may be shocked at those who are arguably the biggest worriers. In my experience, the people who are most proactive in seeking ways to cut college costs are affluent and wealthy parents.

The good news is that simple yet effective strategies exist to help you make college more affordable for your children. You can start with these key steps:

1. Don't make assumptions about financial aid

You may think you won't qualify for financial aid, but parents are often terrible judges of their potential eligibility.

When money is an issue—and it usually is for even affluent families—determining whether a student will qualify for need-based aid is a critical first step in reducing college costs.

Once a family knows the answer to this question, they can target the right sources for college money. To illustrate this, here are three financial aid scenarios:

Example 1
Parents have an adjusted gross income of $225,000. With this level of income, only a few elite schools might give this child need-based aid. This family should aim for colleges that award merit scholarships to high-income students. Nearly all colleges do, except for a tiny number of schools, including the Ivy League institutions.

Example 2
The parents in the above example now have two children attending college. The aid formulas are much more generous when siblings are attending college simultaneously. This family would now enjoy a much greater chance of qualifying for need-based aid at many private institutions but would only be eligible for merit scholarships at state universities.

Example 3
Parents have an adjusted gross income of $130,000. At expensive private institutions, this student would be eligible for need-based aid, but the family would be looking exclusively for merit awards at state schools.

2. Get familiar with the EFC

You may ask: “How rich is too rich for financial aid?”

The answer this popular question involves a critical number called the “Expected Family Contribution” (EFC). An EFC is a dollar figure that represents what a financial aid formula says a family should be able to pay, at a minimum, for one year of a child’s college education.

The EFC for an impoverished family can be as low as $0. That means they don’t have the ability to pay even a single dollar for college. The wealthier the family, the higher the EFC will be, and there is no cap. An executive at a national restaurant chain once told me that he calculated his EFC at $108,000.

As you can see from the examples below, once you have generated the EFC, it’s simple to determine if need-based financial aid is a possibility.

Example 1
Family’s EFC is $35,000 and the school’s sticker price is $59,000.

Cost of attendence: $59,000
minus EFC: $35,000
$24,000 Student’s financial need

In this case, the student would ideally receive $24,000 in aid to bridge the gap between what the formula says the family can afford and the school’s price tag.

Example 2
Family’s EFC is $60,000 and school price is $32,000.

Cost of attendence: $32,000
minus EFC: $60,000
$0 Financial need

With no chance for financial aid at this school, the child should look for a merit award from the institution to cut the price.

3. How to obtain your EFC

You can generate your EFC by heading to the College Board and using the site’s EFC Calculator (https://bigfuture.collegeboard.org/pay-for-college/paying-your-share/expected-family-contribution-calculator).

To use the calculator, you must gather your latest income tax return and your investment and savings account statements. Questions the EFC calculator asks includes:

- Number in household
- Marital status of parents
- Number of children in college
- Parents’ adjusted gross income
- Parents’ income taxes paid
- Student’s adjusted gross income
- Student’s income taxes paid
- Claimed education tax credits
- Medical expenses
- Cash, savings, checking for parent(s) and child
- Non-retirement investments for parent(s) and child

Using the calculator, you can generate the following two EFC figures:

- **Federal EFC** is linked to the Free Application for Federal Student AID (FAFSA), the federal form that anyone wanting need-based aid must complete.
- **Institutional EFC** is connected to a second aid form called the CSS/Financial Aid PROFILE, which about 260 mostly private schools use to determine which students will get their in-house assistance. In addition to the FAFSA, many prestigious private schools use the PROFILE.

EFC Example

Married couple's AGI:	$150,000
Taxable accounts:	$100,000
Home equity:	$200,000
Federal EFC:	$36,652
Institutional EFC:	$35,006

Start using an EFC calculator as early as your child's middle-school years. You'll need to know what kind of college tab you'll will be facing soon.

4. Use net price calculators

Students apply in blind faith to colleges and then often wait months to find out if they've been admitted and what their awards, if any, will be.

Thanks to a relatively new online tool called the "net price calculator," your child doesn't need to apply in the dark. A net price calculator generates an estimate of what a particular school will cost your family based on your financial strength and your child's academic profile after any potential grants/ scholarships are deducted from the price tag.

A good net price calculator will require the same type of financial information that an EFC calculator needs. It may also ask about a student's GPA, class rank, and standardized test scores to calculate merit awards.

- **Bad calculators.** Beware that about half of the nation's NPCs are bad. These calculators rely on the federal calculator template, which only asks for income ranges and doesn't inquire about assets at all! Without that information, you can't generate an accurate estimate. A federal calculator should only take a minute or less to use.

- **Hidden tool.** Schools sometimes hide these federally mandated calculators on their websites. The easiest way to find one is to Google the name of the school and "net price calculator."

- **When to use.** If money is an issue, you may run net price calculators for individual schools before allowing your children to apply anywhere. If the net price is too high, keep looking for more affordable options.

5. How your investments impact aid awards

Parents tend to be quite concerned about how their savings will impact their ability to get college awards. It's often not as big an issue as they assume, because many assets aren't considered in the aid formulas, including retirement accounts.

Depending on the financial aid form, schools assess relevant parent assets from 5% to 5.64%. Any 529 college accounts are treated as a parent's asset.

Example

Parent's assets: $100,000
5% Assessment: x .05

($5,000) Family's eligibility for financial aid

In this scenario, the family's eligibility for financial aid would decrease by $5,000.

Most families will only need to complete the FAFSA when seeking financial aid, and the following assets aren't considered and should not be included on the application:

- Retirement assets
- Home equity in primary home
- Annuities
- Cash value in life insurance

Nearly all PROFILE schools also ignore retirement assets in aid calculations. These institutions, however, are interested in home equity, non-qualified annuities, and sometimes the cash value in life insurance.

6. How child assets impact aid awards

Financial aid formulas treat child assets more harshly. The PROFILE assesses child assets at 25%, while a child's savings will reduce potential aid by 20% with the FAFSA.

UGMA and UTMA custodial accounts are considered a child's assets.

Example

Child's assets:	$25,000
5% Assessment:	x .25
	($6,250) Aid eligibility drops by $6,250

One potential solution is that you could close a custodial account, pay any applicable taxes and then move the assets into a "custodial" 529 account. Money in a custodial 529 is treated for aid purposes as if it belongs to the parent.

Important: If a family is wealthy and will not qualify for need-based aid, the amount of investments that parents and children possess is irrelevant.

7. Check graduation rates

Parents typically assume that their children will graduate from college in four years, but that usually doesn't happen. According to federal statistics, 33% of students attending state universities graduate in four years, while nearly 53% of students at private colleges pull this off.

Making sure a child graduates on time is a sure-fire way to limit ballooning college costs. Check out the following two resources to research grad rates at individual schools before your children apply anywhere:

- College Completion (http://collegecompletion.chronicle.com)
- College Results Online (http://www.collegeresults.org)

Bottom line

Knowing these late-stage college planning tools can put you in a much better position to help your college-bound teens maximize their financial aid and avoid accumulating mountains of college debt that takes many years to pay off. Consult with your financial advisor on how to set up the best college plan for your specific situation.

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