



How to Pay for College

FINANCIAL RESOURCES & PLANNING

With college costs increasing at almost double the rate of inflation, it's no wonder that so many families struggle to pay tuition. If you count yourself among them, here is some helpful advice.

Mom and Dad, take care of yourself first.

There are countless scholarships, grants and low-interest loans available to help families pay for college, but there isn't a lender on the planet that will give you a loan to fund your own retirement. Jeopardizing your own financial future won't help anyone, and your child will thank you later when you are able to take care of yourself without leaning on her for help.

Don't allow a high price tag to scare your child off from applying to top schools.

Money experts often tell those who are short on funds to explore lower-cost educational alternatives, such as attending a state school or community college. Both are good options, but don't assume that private colleges and universities are beyond your reach.

Inside the Guide

This guide covers the basics of financial planning for parents of college-bound students. Look inside for:

- Strategies for maximizing financial aid awards
- Loan options, both federal and private
- Online information on financial aid
- Investment planning for parents
- 529 College Savings Plans
- Coverdell Educational Savings Accounts (ESAs)
- How and when to use IRA funds to finance college

How will I ever pay for college?

In financial aid calculations, one's expected family contribution (EFC) (the amount a child and child's family are expected to contribute toward covering college costs) is always the same, whether your child goes to a state college or to Harvard.

Oftentimes, this means that expensive private schools have more money than their public counterparts to give away in the form of scholarships and grants. Add work-study, federal grants and loans to an award package, and the cost to attend an Ivy League institution may be roughly the same as it is to attend a nearby state school.

Focus on the finish line.

Yes, paying for college is stressful, but remember to keep the end in mind. Despite the high price tag, a college education in today's economy more than pays for itself. In fact, over their lifetime, college-educated workers earn \$1 million more, on average, than those who possess only a high school diploma. [CONTINUED NEXT PAGE →](#)



Maximize your financial resources.

To make the most of any money you have set aside for your child's education and ensure that she qualifies for as much financial assistance as possible, follow these tips:

Look for free money first. It's never too late to apply for "last-dollar scholarships" (scholarships with late application deadlines that are designed to bridge any financial gap that exists after a student's financial aid package is awarded). Sallie Mae, the nation's largest educational lender, lists a number of last-minute scholarships on its www.CollegeAnswer.com website.

TIP Scholarships

Websites that feature comprehensive scholarship listings include www.FastWeb.com, www.CollegeBoard.com, and others. Search online to find resources that fit your need.

Spread out tuition payments in equal installments.

For those who don't have the wherewithal to pay for tuition in one lump sum, many public and private colleges now offer tuition installment plans, which allow you to spread the cost of a full year's tuition over a 10-month period by paying in equal installments.

Get smart on loans. There are two types of loans to consider:

Federal loans such as those offered under the Stafford and Perkins loan programs represent the best deal.

- **Stafford loans** are either subsidized (the government pays the interest while you're in school) or unsubsidized (you pay all the interest, though you can have the payments deferred until after graduation), depending on a student's financial need.
- **Perkins loans** allow undergraduate students to borrow up to \$5,500 per year and are subsidized, with interest paid by the federal government during the loan program's in-school and nine-month grace periods.
- **PLUS loans** allow parents to borrow money to cover any costs not already covered by the student's financial aid package, up to the full cost of attendance.

Private loans offered by banks and financing companies are another option, but because these loans typically carry a higher price tag, they should only be considered as a last resort.

Maximize financial aid. Colleges and universities calculate financial aid eligibility by totaling the cost of attending that particular institution and subtracting the expected family contribution (EFC) from the total. A student's EFC is determined by several factors, such as parental income, the number of children in the family attending college at the same time, and the number of years a parent (or parents) has until retirement.

Many of these factors cannot be controlled, but there are some over which you do have influence:

Place as many assets as possible under your name, not your child's. The reason? When calculating EFC, financial aid professionals typically count 35 percent of a student's assets vs. only up to a maximum of 5.64 percent of a parent's assets. So, as long as assets such as Coverdell Educational Savings Accounts (ESAs) are owned by you and not your child, your child will stand a better chance of qualifying for more aid.

Pay down consumer debt before filling out a Free Application for Federal Student Aid (FAFSA). If you have \$50,000 in the bank and \$20,000 in credit card debt, for example, paying down your credit card debt will reduce the value of your savings to only \$30,000 and improve your child's chances to receive more aid.

TIP Financial Aid

To learn more about the various loans available to students and their parents, visit the FinAid Page LLC website at www.finaid.org.

Weigh risk and reward with an eye on time. To help parents and others manage rising education costs, the federal government allows them to save for college in a number of tax-advantaged investment vehicles, such as Coverdell ESAs and 529 College Savings Plans (see next page for details on these and other tax-advantaged accounts).

Before you put money into one of these accounts, however, keep in mind that they are investments that carry risk. If your child is young, it makes sense to start investing now. A good rule of thumb? Don't invest in anything other than fixed assets unless you have at least four to five years to allow your money to grow. (The reason: If time is not on your side, the market may move against you, and you might not get your money back, let alone see it grow.)

Which fixed assets offer the most bang for your buck? Shop around for a money market or savings account with a high interest rate, and also take a look at Certificates of Deposit (CDs). (Hint: Note that you can open a CD under a Coverdell umbrella, which allows you to guarantee your principal investment while simultaneously taking advantage of Coverdell-related tax advantages.)

Another option to consider is municipal bonds, which are issued by state governments and municipalities and typically carry minimal risk. Interest dividends paid by municipal bonds are



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generally expected to be federal income tax-free and may also be state income tax-free if the funds own bonds issued by the state

in which you live. Note that municipal bonds are not FDIC-insured or bank-guaranteed and may lose value.

529 College Savings Plans

529 College Savings Plans are tax-advantaged individual investment accounts designed to help parents and others save money for a designated beneficiary's educational expenses.

What are the advantages of 529s?

- **High lifetime contribution limits** (more than \$300,000 in some states).
- **No income limits** (you can invest regardless of how much you earn).
- **No age restrictions** (you can put in money even after your child turns 18).
- **Control** (as the owner of the account, you decide when withdrawals are made and for what purpose).

You're also free to change the designated beneficiary at any time. And as long as the new beneficiary is a qualified family member of the previous beneficiary, you won't be penalized for making the change.

Currently, earnings in section 529 plans accumulate on a tax-deferred basis. The annual increase in value is not subject to annual capital gains taxes. Redemptions are also exempt from federal income tax if used to pay for qualified higher education expenses such as tuition, room and board, fees, books, supplies and equipment. Note that contributions to a section 529 plan may be deductible on your state

income tax, depending on the state in which you live and the 529 plan in which you are enrolled. (Since state income tax benefits may be limited to the state's own plan, look first at the plans in your state and/or the state in which the beneficiary lives.)

NOTE 529 College Savings Plans are not FDIC-insured or bank-guaranteed and may lose value.

TIP Before investing in a 529, visit <http://news.morningstar.com/articlenet/article.aspx?id=287783> to read Morningstar's report, "The Best and Worst 529 College Savings Plans" for 2009.

Coverdell Educational Savings Accounts

Like 529 College Savings Plans, Coverdell ESAs are tax-advantaged individual investment accounts designed to help you save money for a designated beneficiary's educational expenses. You can open a Coverdell at most banks, brokerages and mutual fund firms. The money you contribute grows tax-deferred, which means that gains are not taxed until the entire amount is withdrawn. Withdrawals used to pay for a beneficiary's qualified education expenses (called qualified withdrawals) are exempt from federal income tax. In

some states, qualified withdrawals also are tax-exempt.

Drawbacks associated with the Coverdell include a low annual contribution limit (up to \$2,000 per year per beneficiary, maximum) and an earnings limit. (A single filer's annual modified adjusted gross income (MAGI) must be less than \$95,000 to make a full contribution, and between \$95,000 and \$110,000 to make a partial contribution. For joint filers, annual MAGI must be less than \$190,000 to make a full contribution, and between \$190,000 and \$220,000 to make a partial contribution.)

Coverdells also are subject to age limitations. Any balance left in the account when the beneficiary reaches age 30, for example, will be taxed as ordinary income plus a 10-percent penalty. (Some states also impose a penalty on earnings). You cannot make contributions to a Coverdell ESA after the beneficiary reaches age 18.

NOTE A Coverdell Educational Savings Account may or may not be FDIC-insured, depending on the type of entity through which it is purchased, so be sure to discuss this matter with your investment advisor or sales representative before investing.

Roth Individual Retirement Accounts

Saving money in a retirement account such as a Roth IRA, in particular, is a good bet. The reason? You can invest now and decide later whether to use the money to pay for your own retirement or to fund your child's education. Parents can withdraw principal and earnings from a Roth IRA to pay for qualified higher education expenses such as tuition, fees, books and supplies, without incurring a penalty.

The only caveat? Parents need to be sure that they have saved enough for their own retirement before dipping into these accounts to pay for a child's education.

To qualify for the maximum Roth IRA contribution, married taxpayers filing a joint return must have a 2009 combined Modified Adjusted Gross Income (MAGI) of less than \$159,000 and earned income must be at least as much as the amount you want to contribute to the Roth IRA. The ability of married taxpayers who file jointly to contribute phases out entirely at \$169,000 for 2009.

For singles, you must have an MAGI of less than \$101,000 and earned income of an amount at least equal to the contribution amount. Single filers' ability to contribute phases out entirely at \$116,000 for 2009.

Finally, note that annual contribution limits to the Roth IRA apply. (In 2009, contribution limits are \$5,000 per year if under age 50 and \$6,000 per year if over age 50.)

NOTE A Roth IRA may or may not be FDIC-insured, depending on the type of entity through which it is purchased, so be sure to discuss this matter with your investment advisor or sales representative before investing.

Banking Boot Camp

This program was developed to teach basic banking skills and distribute relevant financial information to teens, young adults and their parents. To obtain other Banking Boot Camp brochures, check with your banker or visit our bank's website and click on the Banking Boot Camp icon.