NEFE NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

COLLEGE BILLS PRESENT CHALLENGES
IN TOUGH ECONOMIC TIMES
Exploring Options Can Lead to Solutions

ENGLEWOOD, COLORADO—Your child is starting college soon, and the timing could not be worse. Tuition costs are rising faster than either personal income or the Consumer Price Index, and the stock market has been on a downward slide for the last few years. So, even the most careful savings strategies are falling short. What's a parent to do?

"There's no denying that these are difficult times for many people with children of college age, but education remains one of the best investments anyone can make," says William L. Anthes, Ph.D., president of the National Endowment for Financial Education® (NEFE®). NEFE is an independent, nonprofit foundation dedicated to helping Americans take control of their finances. "Even in a struggling economy, there are steps families can take to help meet the cost of college."

First, people should examine their own situation. "Once you understand your finances, you can begin to explore your options. Knowing exactly where you stand will help ensure that you make the best possible choices, both for your child's future and your own."

Noting that many families have multiple financial obligations, Anthes urges parents to complete the following steps before formalizing a short-term approach to financing college.

- Determine how much money is currently set aside for your child's higher education.
- Calculate the difference between the amount you want to contribute to college expenses and the amount now available.
- Examine your family's monthly income and expenses.
- List all family financial commitments, including long-term efforts such as saving for retirement and helping to support aging grandparents.
- Make sure that separate funds are available and adequate to handle family emergencies such as job loss or unexpected medical costs.

Next, Anthes says, parents should consider two significant caveats:

Be reasonable. Parents should take a comprehensive approach to college planning. Education costs are just one item in the overall family budget. While they are important, they should not reduce or eliminate the family's ability to meet its other goals and priorities.

Be flexible. By exploring the full range of financial and educational alternatives available, parents can create a custom approach that combines several elements and suits their family's unique situation.

With some basic financial parameters in place, parents can begin looking for ways to control costs, both in their current spending and in their child's college expenses. "Once they know and accept their situation, parents can start examining the choices they have," Anthes says. "Maybe they can't offer as much as they had hoped, but virtually every family can provide some support to a child in college." He provides a series of tips, described below, for parents to follow in minimizing costs across the board.

- Identify and plug spending leaks. Reviewing current expenses can help families pinpoint unnecessary spending. For instance, families that dine out a few times a week might be able to save money by eating more meals at home. Parents may find that they can reduce their transportation expenses by using mass transit rather than driving a car. Shopping at discount stores may reduce the cost of clothing and food.
- Consider price when selecting a school. Statistics from the College Board show that the average cost of fees and tuition at a private college or university in the 2001-2002 academic year was around $17,000—but the cost at a public institution was more than 75 percent less, at $3,700 (excluding room and board). By choosing a state university or a community college, parents can help their child get a solid start in higher education without incurring excessive debt. Credits can be transferred to another institution when or if circumstances allow. If a child can continue living at home, savings are even greater.
- Apply for financial aid. "Financial aid" is a generic term that encompasses several types of assistance. Scholarships, grants, work-study programs and loans are all generally considered to be under the umbrella of financial aid, although they vary widely in approach and structure. Scholarships and grants, for example, are gifts and do not have to be repaid; student loans are low-interest borrowing alternatives that are not due until after graduation. In most cases, financial aid is awarded for one year; the student must re-apply for each successive year.

You may apply for financial aid at any institution, regardless of your family's income or the cost of tuition at the school. The process usually coincides with admission (spring deadlines are common) and begins with completion and submission of the Free Application for Federal Student Aid (FAFSA), which is used to determine a student's financial need. Many schools provide access to the FAFSA on their Web sites; it is also available online through the U.S. Department of Education, at www.fafsa.ed.gov/.

Anthes points out that while financial status is considered in determining need, standards vary widely. "Aid is generally more common, and more generous, at private colleges and universities than at lower-cost public schools. Consequently, you may pay the same amount for a prestigious university that you would pay for a lesser-known school."

- Pursue scholarship potential. If your child has a distinguished high school record, college scholarships or grants may be the answer to a financial shortfall. Procedures vary widely among schools, and many institutions require a separate application for each award; i.e., applying for financial aid does not automatically mean that a student will be considered for a grant. Often, scholarships and grants are tied to a particular area of study, but some are designated for specific ethnic groups or communities, and still others are needs-based. Comprehensive details on available scholarships and grants across the nation are available from FastWeb, at http://www.fastweb.com/.

Even after reducing costs as much as possible, there still may be a need for some additional funds. "The next step in developing a strategy for college saving is to increase available financial assets," Anthes says. "Whether you need a large amount or a small one, parents have choices. Exercising them wisely can make all the difference." He recommends that families weigh the following points in selecting a course of action.

- Borrowing offers advantages. Increasing cash flow through loans is a viable option for many families, especially in the current economic climate. With interest rates at historically low levels, borrowing may be a good alternative. "Regardless of the type of loan, the influx of cash can take away some of the pressure and allow families some time to let their investments grow as the economy improves," Anthes says. "When times are better, the family can use money earned on investments to pay down the loan."
- Students, rather than families, may be the borrower. Anthes suggests that parents examine the option of taking out a student loan in their child's name. "Interest rates are very low, there are great tax breaks and repayment may not begin until after the student finishes school. At that point, parents may want to contribute a portion of whatever they have accumulated in the interim to help with repayment."
- Saving can still help. Begin putting money recovered from spending leaks in a specified account on a regular basis, or increase what you are already saving. Also earmark unexpected income, such as tax refunds, for the college account—provided that the money is not already committed to other savings needs like retirement.
- Relatives may be able to help. Ask relatives to give cash gifts on occasions such as birthdays and holidays. Talk to grandparents about contributing to a college fund, either through simple gifts or through their estate. Tax advantages may apply.
- Students themselves can contribute. Part-time jobs may offer much-needed financial leverage: some employers provide tuition assistance; and cooperative work programs often enable students to alternate academic and working semesters. Individual schools and private employers provide information on work-study and cooperative alternatives.

- Government service offers other options. In addition to joining the military or the Reserve Officer Training Corps (ROTC), students may choose to become part of AmeriCorps or even the Peace Corps. While some programs involve significant commitments, they may provide participants with an educational financial award upon completion. The award money can be used to pay off existing student loans, or it can be applied toward future tuition expenses. The completion of other programs may result in a reduction in an individual's total student loan balance. Detailed information is available from Students.gov, the "student gateway to the U.S. government," at http://www.students.gov/.
- Consolidating multiple debts into a single, lower-interest-rate loan can free up extra cash. As a last resort, parents may want to consider a home equity line of credit. By securing a line of credit against the equity in their house, families can tap into an available fund as needed rather than securing a single large loan. The repayment schedule is usually extensive, and interest payments are tax-deductible. However, parents should consider this option only if they have money set aside for emergencies that may arise.

As a final step in developing a financial strategy for college, Anthes advises parents to beware of pitfalls they may encounter. "Too often, in their determination to help their children, they are blinded to potential problems—from bad investments to fraudulent schemes. It's critical that parents understand the dangers and use their best judgment in working toward their financial goals." He cites several ways to counter the risks.

- Don't overlook retirement funding. Parents have to remember that they have an obligation to their own future—not just the future of their child. Providing for long-term parental stability is important for every member of the family.
- Be alert to scholarship scams. Investigations by the Federal Trade Commission (FTC) have uncovered a wide variety of fraudulent programs, especially in the area of scholarships. The FTC urges students and parents to confirm the legitimacy of all financial aid alternatives before applying and, in correspondence or discussion about scholarships, to be on the lookout for the these types of statements: "we need your credit card information"; "the scholarship is guaranteed or your money back"; "you can't get this information anywhere else"; and "you're a finalist" in a contest you never entered.
- Start planning now for young children. If there are other children in the family, parents should explore long-term savings options. Tax breaks for education are available through state-sponsored 529 plans (at least through the year 2010), Coverdell savings plans (formerly Education IRAs), Roth IRAs, Hope Scholarship Credits and Lifetime Learning Credits. Uniform Gift to Minors Act (UGMA) plans provide tax benefits as well, but funds become the property of the beneficiary when the child turns 18.

"Each step in the process is important," Anthes says. Planning for college expenses is a comprehensive exercise. By following the basic steps presented here, everyone—even those who don't have the luxury of time—can help to ensure a stable future for the entire family." For additional information on personal money management, consult the NEFE Web site at http://www.nefe.org/.