Kids College-Bound?
Let's Talk Money

Expert Guidance on Funding Your Child's College Education

It seems like a rite of passage as 19.4 million students flood college campuses across America each fall. Getting into college is one piece of the puzzle, how you'll pay for it is the other. Financing your child's higher education is often the culmination of years of saving, planning, and researching.

We spoke with **Margaret Bolton Baudinet,** CEO of **CollegeSolutions.com**, and **Andrew Windham**, Founder and CEO of The College Planning Institute to get an expert look at strategies parents can use to help pay for the escalating cost of a college education.

Plan Early—With a Realistic Ballpark

When should you start saving for your child's education? A financial advisor would tell you: yesterday! The cost of a public education averages $32,000/year; private colleges range from $50,000-$90,000 annually. But be informed: the national average for an undergraduate degree is six years — not four, as commonly perceived.

As tuition costs continue to rise at about 8% annually, the cost of college can double over nine years. Think of it this way: if you're a family with three children, each spaced three years apart, the annual cost of your youngest's senior year tuition (your last college payment) can be twice that of your eldest's freshman tuition (your first payment).

While these figures are staggering, Bolton Baudinet tells her clients, "There are lots of options! Do not despair!" There are numerous financial solutions you can tap into.

Explore 529 Savings Plans

One of the first places every parent should start is setting up a 529 in each child's name, says Bolton Baudinet—ideally by the time your child reaches kindergarten, if possible.

A 529 is a state-sponsored, tax-advantaged investment account designed to encourage saving for education. Each state has their own offerings, and you can shop plans from any state.

According to Windham, there are many pros to 529 plans:

- **Tax-free growth:** Money for qualified education expenses grow and are withdrawn tax-free*
- **Tax deductions and/or credits:** Most states offer tax deductions or credits.
- **High contribution limits:** In 2023, you can contribute $17,000 a year or front load up to $85,000.
- **Low-risk investment:** Low-risk bonds, ETFs, and mutual funds tend to grow steadily over time.
- **Control:** Account owners can decide how, when, and for whom to use the funds.
- **Flexibility:** Funds may cover tuition, fees, books, meals, housing, and student loans.

And there are a couple of important caveats:

- **Eligibility for aid:** 529 funds could impact your child's ability to qualify for student aid.
- **Cost:** Fees, penalties, and administrative expenses vary by plan so it's important to compare fees.

Find Free Money

Most colleges offer forms of "free money" that do not accrue interest or require repayment, including:

- **Work Study:** Sample jobs on campus may include: library assistant, office administrator, research assistant, tutor, campus tour guide, IT support, event organizer, groundskeeper, or dining hall staff. Students receive an hourly wage for their service that they can put toward their educational expenses — or spend any way they choose.
- **Grants:** Need-based grant money can stem from federal, state, local, employer, and institutional sources. Grants are often aimed at minority or underrepresented groups, students with disabilities, veterans, or individuals from low-income households.
- **Scholarships:** If you've got a "high achiever," especially one who excels in STEM, computer science, debate, athletics, or performing arts — your child may be well-positioned for a merit-based scholarship.
- **Out-of-State Discounts:** Some colleges love to tout geographic diversity, as this is one of the *US News and World Report* ranking factors. Institutions may consider location as part of a needs-based financial aid package or offer specific scholarship programs targeting out-of-state students.

Some colleges are more generous with their aid packages than others, says Windham. It's also important to note that Ivy League schools do not award merit money, so smaller private schools with healthy endowments can be worth a look.

Additional aid opportunities exist with:

- Foundations — like those sponsored by Coca Cola, Dell, or Microsoft
- Employers, including the students' or parents'
- Business associations
- students' or parents'
- Business associations
- Chambers of Commerce
- Parent Teacher Student Associations
- The American Opportunity Tax Credit
- State-specific college aid programs

Windham estimates that students win about 20-30% of the scholarships or grants they apply for, making it worthwhile to invest a few hours in crafting strong applications to the sponsoring org. The average proceeds range from $750 to $1,500, and while some awards are one-time payments, others can be renewed.

Take Out PLUS or Stafford Loans

Private or federal student loans are other common resources.

The Parent Loan for Undergraduate Students (PLUS) and Stafford Loan are federal student loans funded by the U.S. Department of Education, with terms and conditions governed by the Higher Education Act of 1965.

Key advantages of both loan programs are:

- **Low interest rates** that save money over the loan's lifetime
- **Fixed interest** with predictable monthly loan payments
- **Flexible repayment options**, including income-driven repayment plans and deferments
- **Broad accessibility**, making money available for students without credit history or parental permission

The primary difference is that Stafford Loans are issued directly to undergrads, whereas PLUS is available to parents of undergrads or directly to graduate students. The application process, credit requirements, and loan fees can also vary between the two loan types, so you'll need to consider the terms and conditions carefully before deciding.

Windham says students typically qualify for up to $31,000 in loans, available in $5,500, $6,500, or $7,500 increments, starting freshman year. Naturally, it's important to only take out as much of this money as you truly need, as you do have to pay it all back — with interest.

Research Colleges That Use Federal Methodology

When seeking financial aid, prioritize colleges that use the Federal Methodology for need calculation instead of the Institutional Methodology. "The Institutional Methodology often considers more of your personal assets, potentially resulting in lower aid eligibility," advises Bolton Baudinet.

A few examples of schools that use Federal Methodology include:

- Harvard University
- Stanford University
- University of California, Berkeley
- Massachusetts Institute of Technology (MIT)
- University of Michigan, Ann Arbor
- University of Texas at Austin
- University of Washington, Seattle
- University of Florida
- University of Illinois at Urbana-Champaign
- University of North Carolina at Chapel Hill

Look Into Non-Traditional Funding

While grants, scholarships, 529 plans, and loans get the most attention, you can ask your financial advisor about accessing funds that are in your existing accounts, such as:

- Life insurance
- Roth accounts
- Uniform trusts
- Savings and brokerage accounts

Compare Apples to Apples

By mid-March of your child's senior year of high school, you should have enough financial aid letters to compare your options— either using a spreadsheet or software, which many financial planners use. Consider the aid duration, free money offered, and loan terms. Ultimately, you are always looking for three important letters: COA, Cost Of Attendance," explains Bolton Baudinet. "This is the bottom-line cost for each college."

Maintain an Honest and Open Dialogue

As your family explores options, you may ultimately decide that going into debt to pay for a college education isn't the right path. Bolton Baudinet suggests referring to the Department of Education Scorecard, which provides information on the starting salaries, categorized by major, for graduates from thousands of colleges.

"If your child is considering $75,000 in debt, to earn a computer science degree from Carnegie Mellon, it would be worthwhile, as Carnegie Mellon computer science grads earn a median of $247,000 per year," she says. "Still, as you can imagine, there are many colleges and majors that would not make up for the debt in a reasonable amount of time."

According to Windham, a popular rule of thumb is to avoid borrowing more than 1-1.5x what your annual gross salary is expected to be. "Don't assume you're a failure if you don't go to college," he often tells families weighing the decision. "You know, there are pretty successful people — Bill Gates, Michael Dell, and other folks — who didn't go to college." When the numbers don't add up, other

Speak with a Financial Advisor

Chances are, you have many more questions than what we've addressed here. For instance, you may wonder who – you, your child (or even a grandparent) – should open the 529 account, which 529 plan is the most advantageous for you, how much you should be saving each month, and whether you should take out a loan in your name or your child's. These are all important—and very personal—questions to ask a trusted family financial advisor. Having a financial plan that addresses your goals is a fundamental first step in making a college education an affordable reality. Give me a call today to discuss your options.

*Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary.