



## A Parent's Guide: Making College Funding a Family Affair

Providing a college education may be one of the most significant expenses families have, made more challenging by the relatively short time to save, costs that continue to increase faster than inflation, and reductions in institutional financial aid. In short, you need all the help you can get. So, why not ask your children for a hand?

Amazingly, just 57 percent of parents report talking with their children about the cost of college.<sup>1</sup> Life gets in the way. College seems so far off when you're spending time on little league fields or at dance recitals. Later, in high school, many families may invest their time and money on tutors, SAT prep classes and athletic showcases, focusing on the college admissions game rather than on college funding. A family's emphasis also can be misplaced on college tours if they compare everything from dorms to study abroad programs, but ignore costs. Unfortunately, some families wait until senior year, or even for the arrival of acceptance letters, to address how they will pay for college. And by that time it could be too late to recover from early mistakes.

So, how can you get the college funding conversation rolling before you are listening to "Pomp and Circumstance?" These four steps can help you broach the subject with your children and get on the right road to saving for college:



### MEET WITH YOUR CHILDREN TO SET EXPECTATIONS.

Family meetings are an ideal place to tackle the question of whether you expect your children to contribute to college funding, either from summer jobs or work-study while in school. Putting the meeting on the family calendar rather than bringing up the subject on the way home from soccer practice or at the end of dinner one evening ensures everyone has time to prepare. Your goal should be the same as when you discuss grades, curfews, or driving privileges. You simply need to ensure that your children understand what you expect of them when it comes time to pay for college.

That is no easy task because, at some level, money is still a taboo subject – even among family members. However, the college funding conversation is necessary because a recent Sallie Mae study found that while 64 percent of parents want to cover the total cost of college, only 28 percent are on track to do so.<sup>2</sup>

The college funding path your family takes is a personal decision. Your expectations for your children can be influenced by how you were brought up. For example, folks who worked and contributed financially to their college education may want their children to have some skin in the game. Others whose parents paid all the bills may bristle at asking their children to buy their own books.

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### To-Dos and Conversation Starters:

- Ask your child what kind of college they are interested in.
- Share specifics of your college savings strategy.
- Discuss your expectations about grades and a timeline for graduation.

<sup>1</sup> Rosato, Donna. "The Important Talk Parents Are Not Having With Their Kids." *Time*. 20 Aug. 2014. Web. 4 Sep. 2015. <<http://time.com/money/3148983/fidelity-college-savings-indicator-parents-kids-tuition-full-ride/#>>.

<sup>2</sup> How American Pays For College 2014. Sallie Mae's National Study of College Students and Parents.

## How Much Does College Cost?

Average published tuition, fees, and room and board for in-state students in the public four-year sector increased to \$18,943 in 2014–15. At private nonprofit four-year institutions, average total charges increased to \$42,419.<sup>6</sup>

**\$42,419**

**Average cost at private nonprofit four-year institutions<sup>6</sup>**

### To-Dos and Conversation Starters:

- Illustrate the difference between the cost of public and private education for your child.
- Discuss with your child how college costs have risen faster than the rate of inflation.
- On college tours, ask about the frequency of tuition increases.

If you want to justify requiring your child to contribute to college costs, “More Is More or More is Less? Parent Financial Investments during College” by University of California professor Laura Hamilton links larger contributions from parents to lower grades for students. Dr. Hamilton found that the students with the lowest grades were those whose parents paid all college costs without discussing the students’ responsibility for their education.<sup>3</sup>

Further underscoring the benefits of discussing college funding with your children, a T. Rowe Price study found that 58 percent of children whose parents talk frequently with them about saving for college actually put away money for that goal. Of children who reported not discussing college costs with their parents, just 23 percent had set money aside for school.<sup>4</sup>



### CALCULATE COLLEGE COSTS.

It may be easier to get your children to buy into funding some of their education when they understand that you could potentially spend more than a quarter of a million dollars on their undergraduate education. And that’s at today’s costs. Because college is an expense that clearly warrants advance planning, it’s important to take the first step of realistically estimating costs.

Somewhat inexplicably, however, colleges rarely focus on cost in their catalogs or on websites and tours. And, when they do address finances, it can be confusing. For example, tuition might be listed with no mention of room and board, leading to the faulty assumption that tuition is the total cost. That’s especially misleading because at state schools, room and board can rival the cost of tuition. And an additional “fees” category represents different expenses at each school and can add thousands to the total college bill.

Congress tried to legislate greater pricing transparency in 2008 by requiring all colleges to place “net price calculators” on their websites that could, with the input of basic family financial information, approximate the college’s cost after grants and scholarships are factored in. However, a study by the Institute for College Access and Success, a nonpartisan research and advocacy group, found that many calculators are virtually hidden on college website and others are difficult to use.<sup>5</sup> Plus, quality aside, users can get frustrated with the net calculator process because they need to re-enter their financial data for each college they are interested in.

A free online tool produced by College Abacus is attempting to do what Congress could not. Created by two Rhodes Scholars, the tool allows college shoppers to enter financial information just once and check the net price of all the schools they are interested in. Although some colleges currently block College Abacus from obtaining their financial data, the tool makes estimating cost more efficient and increasing pressure may cause uncooperative colleges to be more forthcoming.

Keep in mind that colleges’ varying capacities to offer institutional financial aid can make comparative shopping difficult. That is, a college with a high sticker price and a large endowment may actually cost less than a college with a lower sticker price and smaller endowment once financial aid is awarded.

<sup>3</sup> Lewin, Tamar. “Parents’ Financial Support May Not Help College Grades.” *The New York Times*. 14 Jan. 2013. Web. 4 Sep. 2015. <[http://nytimes.com/2013/01/15/education/parents-financial-support-linked-to-college-grades.html?\\_r=1](http://nytimes.com/2013/01/15/education/parents-financial-support-linked-to-college-grades.html?_r=1)>.

<sup>4</sup> “Boys and Girls Not Equally Prepared for Financial Future.” *Money Confidential Kids*. T. Rowe Price, 18 Aug. 2014. Web. 4 Sep. 2015. <<https://corporate.troweprice.com/Money-Confident-Kids/Site/Media/News/Articles/boys-and-girls-not-equally-prepared-for-financial-future>>.

<sup>5</sup> “Comparison Shopping for College Tuition.” *The New York Times*. 25 Feb. 2012. Web. 4 Sep. 2015. <<http://nytimes.com/2012/02/26/opinion/sunday/comparison-shopping-for-college-tuition.html>>.

<sup>6</sup> Baum, Sandy and Jennifer Ma. “Trends in College Pricing 2014.” *The College Board*. 2014. Web. 4 Sep. 2015. <<https://secure-media.collegeboard.org/digitalServices/misc/trends/2014-trends-college-pricing-report-final.pdf>>.



## ESTIMATE YOUR FINANCIAL AID ELIGIBILITY.

You may see promising statistics on college websites along the lines of, “90 percent our students are on financial aid.” However, remember that financial aid is a broad term that covers non-need-based merit scholarships, lower interest rate federal loans, need-based grants from colleges, and work study. Not all financial aid is a “gift.” When colleges claim that 90 percent of their students were granted financial aid, they may be including those who just took out a federal loan. That loan could be the only part of the aid package.

Although you have to wait until January of your child’s senior year to file the Free Application for Federal Student Aid (FAFSA), you can get an early sense of what your Expected Family Contribution (EFC) will be by using the online FAFSA4caster tool found at <https://studentaid.ed.gov/fafsa/estimate>.

You’ll find the bulk of the information you need to calculate your EFC on your most recent federal tax form and bank statements. Just be sure to answer all the questions, even if you have to estimate.

You may be surprised that your college savings have a relatively small impact on financial aid. In fact, the federal formula factors in just 5.6 percent of assets held in a parent’s name. (It taps student-owned assets at 20 percent).

If you don’t plan on filing the FAFSA because you think you make too much money, keep in mind that families earning six figure incomes can qualify for need-based aid if there are multiple family members attending college in the same year. Also, colleges offer merit aid that is not based on financial need to entice students with desirable academic, demographic or geographic characteristics to enroll. Sometimes you need to file the FAFSA to be considered for these grants.

Importantly, colleges stress that it’s crucial to file the FAFSA on time. Because schools have different deadlines, be sure to check on their websites or call the financial aid office to ensure your forms arrive on time. Note, too, that some schools require a second financial aid form, the CSS Financial Aid Profile, to be filed through the College Board. This form is not free to file.



## EXPLORE 529 COLLEGE SAVINGS PLANS.

For families who can afford to save all or a substantial portion of expected future college costs, the 529 college savings plan’s tax advantages and high contribution limits may make it the most tax-efficient investment vehicle for college savings. While a 529 plan’s tax deferral gives your assets a chance to grow faster than they would in a comparable taxable account, withdrawals for qualified education expenses are tax free.<sup>7</sup> Some states also offer additional tax deductions. And, because 529 plans remain under the account owner’s control, assets can be reclaimed at any time by transferring the account to another beneficiary or paying ordinary income taxes and a 10 percent penalty on account gains.

Additional 529 college savings plan advantages include high maximum contribution limits set by the plans themselves, as high as \$400,000 per beneficiary. (Each state

<sup>7</sup> Earnings on non-qualified withdrawals are subject to federal income tax and may be subject to a 10 percent federal penalty tax. Non-qualified withdrawals may also be subject to state and local income tax. The availability of tax or other benefits may be contingent on meeting other requirements.

### To-Dos and Conversation Starters:

- List the requirements and financial aid deadlines for all the schools your child is applying to.
- In advance of filing the FAFSA, visit college websites and the use net price calculators to estimate costs.
- Research merit scholarships and consider adding one school where merit aid is a possibility to your child’s list of schools.

### To-Dos and Conversation Starters:

- Determine the role of a 529 college savings plan.
- Discuss 529 plan investment options with your child.
- Suggest your child ask grandparents and other relatives to make birthday gifts to his or her 529 plan.

sets its own limits.) Further, while the annual limitation for tax-free gifts to family members is \$14,000 per individual per year for 2015, a special gift tax exclusion permits five years' worth of gifts to the beneficiary of a 529 plan, in a single year, without triggering the federal gift tax.<sup>8</sup> That amounts to \$70,000 for individuals and \$140,000 for married couples. This can make the 529 plan an effective choice for grandparents and other family members who may want to help finance college.

In more good news, federal financial aid formula treats a 529 plan for a dependent student as a parental asset. Therefore, no more than 5.6 percent of the value of the 529 account is considered when determining the Expected Family Contribution (EFC) towards college costs. Also, withdrawals from your tax-free 529 plan do not add to your family's income, which would reduce the next year's eligibility for financial aid. (Note, though, that withdrawals from a 529 account opened by a grandparent do, indeed, count as student income. For that reason, many families that receive financial aid choose to reserve grandparent accounts for the final year of college when they would not be filing a FAFSA to qualify for financial aid for the following year.

In conclusion, providing a college education for your children is a big dream with a big price tag and families need all the planning help they can get. Your trusted advisor can help by facilitating discussions with your children and developing a comprehensive, multi-generational college funding plan.

<sup>8</sup> In the event the donor does not survive the five-year period, a pro-rated amount will revert to the donor's taxable estate. Rules regarding gifts and generation skipping transfer tax may apply in the case of a change in beneficiary. You should consult with your tax advisor when considering a change of beneficiary.

#### SSGA UPROMISE 529 PLAN

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